

AR56

Windsor Business Reference Room
University of Alberta
1-24 Business Building
Edmonton, Alberta T6S 2H6

paramount 98

twenty years in the oil & gas industry





Paramount Resources Ltd. 1998 **annual report**



1	1998 Highlights
2	Twenty Years of Paramount
5	President's Message to Shareholders
8	Review of Operations
16	Property Review
25	Management's Discussion and Analysis
34	Auditors' Report
34	Management's Report
35	Consolidated Financial Statements
38	Notes to the Consolidated Financial Statements
43	Annual Information Form
55	Analyst's Handbook

PARAMOUNT RESOURCES LTD. is a Canadian energy company with 90 percent of its revenue derived from natural gas sales. The Company explores for, develops, processes, transports and markets natural gas. Since its inception in 1978, the Company has concentrated on the full cycle exploration and development of high deliverability shallow gas in northeastern Alberta. In the past several years, the Company has successfully diversified into three new core areas within the Western Canadian Sedimentary Basin, adding a foundation for continued growth through exploration and development. Paramount has the asset base, the infrastructure, dedicated team members and a proven formula for growth to continue to create shareholder value.

Cash Flow and Earnings (\$ million)

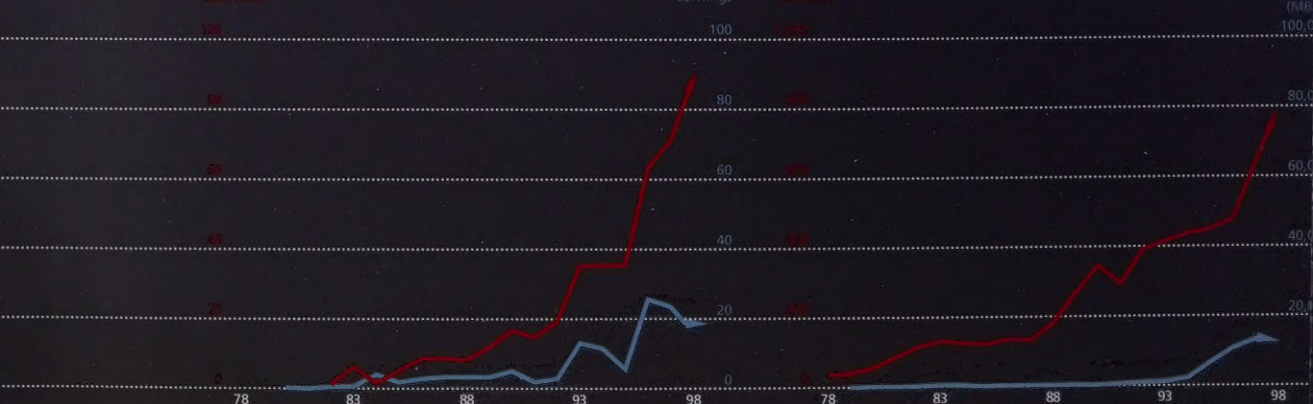
Cash Flow

Reserves (proven and probable)

Earnings

(\$ million)

Crude Oil and Liquids



1998 Highlights

	1998	1997	% change
Financial			
(\$ millions except per share amounts)			
Gross revenue	\$ 165.5	\$ 130.5	27
Cash flow from operations	88.1	70.9	24
Per share	1.62	1.42	14
Net earnings	18.2	23.4	(22)
Per share	0.34	0.47	(28)
Capital expenditures (net)	216.0	184.2	17
Total assets	624.2	470.0	33
Long term operating bank debt (net of working capital)	226.8	137.4	65
Shareholders' equity	262.9	203.8	29
Weighted average common shares outstanding (000's)	54,348.0	49,782.0	9
Outstanding shares at year end (000's)	56,953.6	53,953.6	6

Operating				
Sales (gross before royalty)				
Natural gas	Bcf	74.3	54.2	37
	MMcf/d	203.5	148.6	
Crude oil and liquids	MBbl	725.6	508.1	43
	Bbl/d	1,988	1,392	
Average Prices				
Natural gas	\$/Mcf	2.02	2.12	(5)
Crude oil and liquids	\$/Bbl	19.22	26.36	(27)
Reserves (proven and probable)				
Natural gas	Bcf	788.2	636.8	24
Crude oil and liquids	MBbl	11,630	13,440	(13)
Drilling activity				
Gross wells		172	147	17
Success rate		83%	93%	
Land holdings (thousand acres)				
Net		2,433	2,032	20

1999 FORECAST

Natural gas sales	270 MMcf/d
Average price	\$2.25/Mcf
Crude oil and liquids sales	3,000 Bbl/d
Average price	\$13.00 U.S. WTI/Bbl
Exchange rate	\$0.67 Cdn./U.S.
Cash flow	\$145 million
Cash flow per share	\$2.55

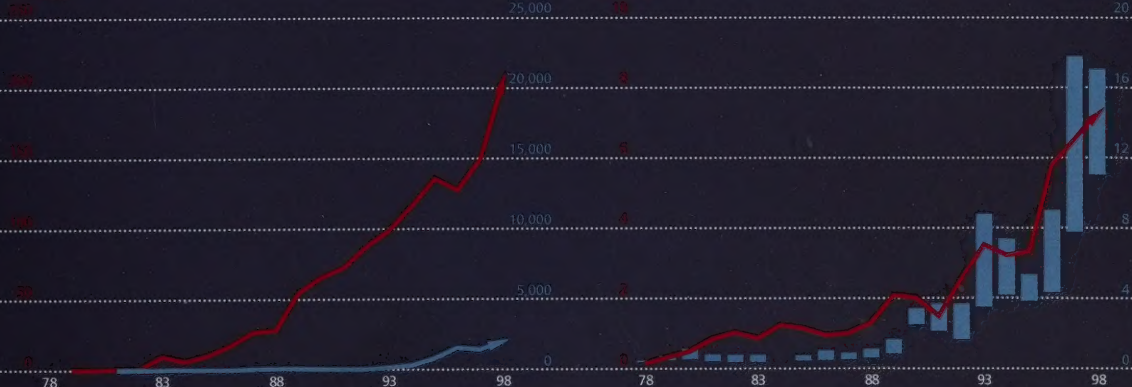
Production

200
150
100
50
0

Share Price (Cdn \$)

20
15
10
5
0

High/Low
(\$/share)



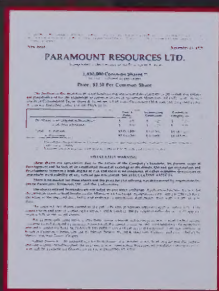
THE FOLLOWING EXCERPTS FROM PARAMOUNT'S 1979 THROUGH 1997 ANNUAL REPORTS DEPICT THE HISTORY OF PARAMOUNT'S GROWTH OVER THE PAST TWENTY YEARS.

Paramount Resources Ltd. commenced operations as a public company on December 18, 1978...and issued 1,469,000 common shares to the public at \$3.50 a share. The stock has since split 9 for 1.

Exploration has been the backbone of the Company since inception. Gas discoveries along the Grosmont subcrop trend, the Company's current 'west side' core area, was the first of many exploration successes.

Paramount pioneered state-of-the-art technology to bring on very low pressure shallow gas production from remote areas in northeastern Alberta.

1978



"As a result of our exploration philosophy, Paramount has (net to the Company) in excess of 40 billion cubic feet of natural gas which is shut-in awaiting markets. The bulk of this natural gas is contained in the Granor-Livock and Chipewyan areas of Northeastern Alberta."

"Paramount builds four gas plants in northeastern Alberta, capable of producing over 45 MMcf/d (a net 17.3 MMcf/d to Paramount) from Chard, Granor, Saleski and Liege gas fields by November 1982."

"Although the financial impact of northeastern Alberta production will not be fully appreciated until 1983, all shareholders should recognize 1982 as a banner year for Paramount Resources Ltd."

"Absolute open flow rates up to 27 MMcf/d have been experienced, indicating the excellent deliverability of the Grosmont reservoir."

POU

Paramount's shares were listed on the Alberta Stock Exchange under the symbol 'POU'.

twenty years of...

paramount

If you invested \$1,000 with Paramount in 1978...

5 YR
\$2,100

Paramount's strategy includes controlling the pieces of the equation that we can and working at influencing variables that are beyond our control.

As the Grosmont subcrop trend became exploited, the Company sought to extend its low pressure gas production expertise to a new set of reservoirs. Success in the Cretaceous came with the interpretation of bright spots on seismic.

1980 "If Paramount was a foreign corporation we might be enraged [by the National Energy Program]. As a Canadian company, I can find no words to describe the rape and plunder the Canadian government has perpetrated on our Company."

1983 "The National Energy Program failed to...Canadians have been duped!"

1984 "Alberta natural gas producers operated at 42 percent of capacity during 1983. There is obviously a crisis...the crisis in the natural gas industry affects this Company, Albertans, every Canadian tax payer, the value of the Canadian dollar and unemployment in Eastern Canada. It is appropriate that this industry be given its recognition as a contributor to the wealth of Canada and be nurtured by all levels of government instead of ignored and/or plundered."

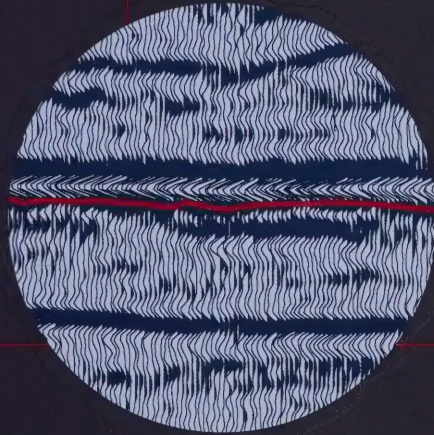
1986 "Those companies that don't panic; make sound exploration, development and financial decisions; and retain their highly trained professional staffs, will prosper. This may not be the current conventional wisdom, but that's the way I see it."

1987 "When will the natural gas bubble burst?"

"There are a whole myriad of statistics, but they all point to the same thing; a disastrous year for the industry. With certainty, I believe that the worst is over and the industry is on the road to recovery. I hope it's not another Boom, but a good, loud roar would be nice."

1988 "Governments are gradually coming to realize that the energy industry is not a cash cow that can be milked continuously and still produce."

1989 "Every day headlines appear predicting unprecedented prosperity for the natural gas industry."



"Applying our knowledge of shallow gas production to a different exploration environment, corporate growth in the early '90s was fueled through the successful exploitation of the Lower Cretaceous clastics of northeastern Alberta."



Despite uncertainty in the industry, Paramount focused on production growth through the '80s.

10 YR
\$2,900

15 YR
\$22,500

In the early '90s the Company set the goal to diversify outside of its traditional shallow gas core areas. This was accomplished with the introduction of new core areas in central Alberta, northwest Alberta, and southeast Saskatchewan.

90s

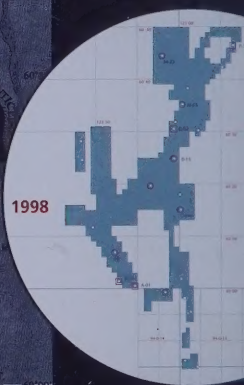
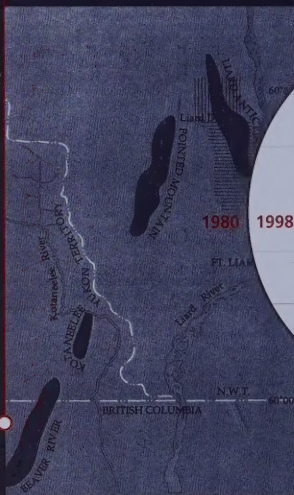


"Kaybob will be the first significant producing property outside of Paramount's traditional northeastern Alberta core area."

"With our 1997 construction of the Bistcho Lake sour gas processing facility 50 km north of the Zama pipeline terminal, northwestern Alberta is positioned to develop into a key producing area for the Company."

"The construction of the Bistcho Lake sour gas plant drastically changes the economics for the Cameron Hills project in the Northwest Territories."

Perseverance is a key component of our exploration strategy. As technology improves Paramount has returned to areas such as the Liard Basin to capitalize on the knowledge we gained from previous experience.



"Paramount has been interested in the Liard Basin for two decades. Activity was halted for over a decade by aboriginal rights issues, but the industry is active again."

"Exploration at its finest. An underdrilled basin close to infrastructure, multiple play types with big reward potentials, technical challenge... a frontier play in our own backyard."

20 YR
\$38,500

1998

Paramount 20 year shareholders earned an annual rate of return of 190%.

President's Message to Shareholders

1998

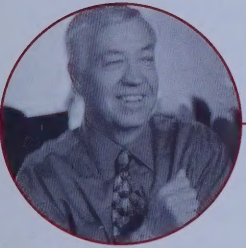
As this year's report is being prepared, a bit of nostalgia creeps in...this is our 20th anniversary edition, a milestone that was celebrated in December 1998. The landscape has changed dramatically when one tries to find our peers of twenty years ago. Many challenges have been faced, including the National Energy Policy, oil price collapses, deregulation of the North American gas market, and the proverbial never-ending gas bubble. Through these challenges Paramount has persevered, achieving growth and building value for our shareholders. Paramount is proud of these accomplishments and of the commitment of employees, directors and shareholders that has enabled us to achieve these results over the past twenty years. Paramount's twentieth year was marked with many new achievements including record production levels, cash flow, reserves and asset value. These records look to be broken with further increases in 1999, as we work to reach aggressive targets.

1998 IN REVIEW

Operationally, the Company recorded a 37 percent increase in sales volumes to 223.4 MMcfq/d, as compared to 162.5 MMcfq/d in 1997. This includes a 37 percent increase in natural gas production from 148.6 MMcf/d in 1997 to 203.5 MMcf/d in 1998, and a 43 percent increase in crude oil and natural gas liquids production to 1,988 Bbl/d in 1998 from 1,392 Bbl/d in 1997. These production levels pushed the Company to achieve record financial results despite a softening in natural gas prices and the virtual collapse of oil prices. Revenue increased 27 percent from \$130.5 million in 1997 to \$165.5 million in 1998, and cash flow increased 24 percent from \$70.9 million to \$88.1 million. Earnings were healthy at \$18.2 million. On a per share basis, cash flow was \$1.62 and net income was \$0.34.

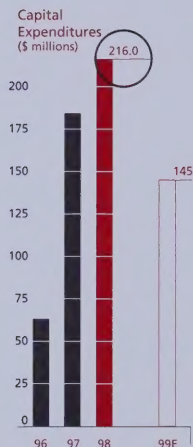
In 1998, Paramount undertook its largest ever capital expenditure program spending a net \$216 million, 33 percent of which was related to complementary asset purchases. This investment translated into rewards for the Company in 1998, but the real upside is the numerous exploration and development opportunities that will be exploited over the next several years.

Northeast Alberta core area production continued to increase in 1998 and is expected to post further increases in 1999 to 175 MMcf/d, representing nearly 60 percent of the Company's total production forecast. These production levels will be achieved through drilling and tie-ins at many of the existing producing properties, as well as new projects at Sunday Creek and East Liege. Our asset base in central Alberta holds the highest growth potential, where we expect the production to double to 80 MMcfq/d in 1999 from 37 MMcfq/d last year. A new high of 20 MMcfq/d is targeted for our northwest Alberta core area in 1999.



Clay Riddell, President

"The first twenty years have brought us from nowhere to one of the top 'several' gas producers in the country. We expect to be among the top 'few' gas producers long before the next two decades pass."



CONTINUING TO GROW

On the exploration side, Paramount is very excited about its promising exploration efforts in two new geological basins, the Liard Basin in the Northwest Territories and the San Joaquin Basin in California. In the Liard Basin in the NWT, a great deal of work was done in 1998 and early 1999. With much of 1999's activity already behind us, we have now answered many questions, and results will be reported to the shareholders in a timely manner when the data has been analyzed and our competitive advantage is not compromised.

In the San Joaquin Basin of California, Paramount participated in the East Lost Hills well; a deep, high risk prospect which culminated in a spectacular blowout in November 1998. At the time of writing, this well remains out of control despite the efforts of the most qualified well control experts in the world. It is expected that the relief well, which is currently drilling, will intersect the original wellbore in 30 to 60 days and the East Lost Hills well will be brought under control. The results of this well proved up the potential for this new deep frontier play in the San Joaquin Basin. Paramount has increased its exposure to this basin and play type by committing to participate in three further exploration prospects in the San Joaquin Basin in addition to the East Lost Hills prospect. Paramount expects to expend at least \$20 million net exploring in the San Joaquin Basin over the next two years.

CHANGES IN THE BUSINESS ENVIRONMENT

Business challenges have not gone away, and 1998 has been one of the most challenging in our history as we manage an expanding business in an increasingly regulated and competitive environment. Some of the current challenges include:

- Moves by government to push increasingly onerous regulations out to the individual companies;
- Changes in the NOVA toll structure from the postage stamp system to a more or less distance-based pipeline tolling system. Paramount built a company exploring and developing beyond the end of the NOVA system, and we believe the postage stamp system was, and is, in Alberta's best interests. However, after fighting for many years to retain the postage stamp rates, the tolling system is changing. Paramount's tolls will gradually increase by an average of six cents per Mcf over the next two years;



- Attempts by heavy oil operators to persuade regulatory bodies and the courts to shut in producing gas fields and restrict new development. Paramount is endeavoring to educate the regulator in order to avoid senseless waste of a viable vibrant gas industry in northeast Alberta;
- Inactive well levies, reduction in greenhouse gas emissions, low oil prices, aboriginal issues, increased environmental auditing...the list goes on!

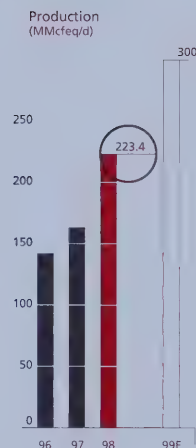
In spite of all the challenges faced from government, regulators and competitors, Paramount will continue to grow and prosper.

On a positive note, 1998 brought the successful completion of the Northern Border pipeline expansion which, along with the anticipated building of the Alliance pipeline, has eliminated the intra Alberta gas on gas price competition under which Alberta has been operating for the past several years. Alberta prices now reflect North American gas supply and demand, and the outlook is for this pricing regime to continue indefinitely.

CONTINUING TO ADD SHAREHOLDER VALUE

Paramount is well positioned for continued growth with a good balance sheet, a strong production base and a long-term exploration plan which will carry the Company into the future. Gas leveraged companies such as Paramount are currently enjoying more than their share of good opportunities without the intensive competition seen in recent years. Gas prices continue to show a bright future.

The outlook for 1999 is production of 300 MMcfq/d and cash flow of \$145 million, which Paramount plans to fully reinvest into continued growth for the Company.



C. H. Riddell
President and Chairman of the Board

March 30, 1999

experience

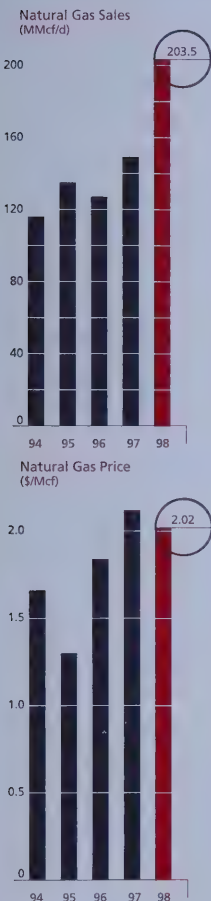
to combine innovative technology with the 'tried and true'



Paramount merges the application of innovative technology, with good old-fashioned exploration methods to create projects which meet rigid economic hurdles in the ever changing climate in which we compete.



NATURAL GAS AND CRUDE OIL SALES AND PRICES



Total production rates in 1998 escalated to 223.4 MMcfq/d as compared to 162.5

MMcfq/d in 1997, an increase of 37 percent year over year. The Company continued to be gas focused, with approximately 90 percent of total sales represented by natural gas. As a result of diversification of the corporate asset base outside our traditional northeast Alberta shallow gas core areas, 28 percent of total production in 1998 was attributable to new core areas.

Natural gas production increased 37 percent to 203.5 MMcf/d in 1998 from 148.6 MMcf/d in 1997. Crude oil and natural gas liquids production also increased substantially from 1,392 Bbl/d in 1997 to 1,988 Bbl/d, an increase of 43 percent.

Paramount currently forecasts 1999 natural gas production to average approximately 270 MMcf/d and liquids production to average 3,000 Bbl/d. Although we are forecasting modest increases in production over and above natural declines in northeast Alberta, the Company's historical production base of high deliverability, low pressure shallow gas should account for less than 60 percent of our total production in 1999. The most significant production increases are forecast for central Alberta, where the Company is anticipating that the recent strategic asset acquisitions will combine with ongoing project development to more than double Paramount's net production in this region from 1998 levels.

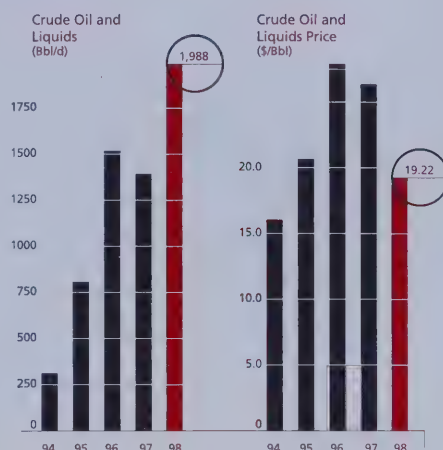
Commodity prices decreased year over year with Paramount realizing 5 percent less for natural gas sales and 27 percent less for oil and natural gas liquids sales in 1998. Paramount achieved an average price of \$2.02/Mcf for natural gas in 1998 versus \$2.12/Mcf in 1997. Oil and natural gas liquids prices averaged \$19.22/Bbl in 1998 compared to \$26.36/Bbl in 1997. Paramount is expecting plant gate natural gas prices in 1999 to average \$ 2.25/Mcf, net of the incumbent changes in the NOVA toll structure.

NATURAL GAS: VOLUME AND PRICE

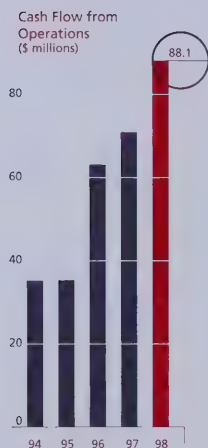
	1998		1997	
	Average Volume		Average Volume	
	MMcf/d	\$/Mcf	MMcf/d	\$/Mcf
First quarter	182.3	1.99	110.4	2.55
Second quarter	210.0	1.95	139.0	1.67
Third quarter	211.0	1.89	149.0	1.81
Fourth quarter	211.0	2.28	195.0	2.44
Annual average	203.5	2.02	148.6	2.12
Annual sales	74.3 Bcf		54.2 Bcf	

CRUDE OIL AND LIQUIDS: VOLUME AND PRICE

	1998		1997	
	Average Volume		Average Volume	
	Bbl/d	\$/Bbl	Bbl/d	\$/Bbl
First quarter	2,137	21.28	1,415	29.25
Second quarter	1,833	18.62	1,202	26.23
Third quarter	2,182	19.01	1,341	23.60
Fourth quarter	1,800	17.71	1,609	26.26
Annual average	1,988	19.22	1,392	26.36
Annual sales	725.6 MBbl		508.1 MBbl	



CASH FLOW FROM OPERATIONS



As predicted, the industry experienced softening in commodity prices in 1998; however, production growth continued to push Paramount to post further record financial results. Despite lower commodity prices, production volume increases of 37 percent translated into a 28 percent increase in petroleum and natural gas sales revenue to \$164.0 million. The year over year increase in sales revenue totalled \$35.5 million. This growth was generated by a \$48.5 million increase in sales volumes offset by a \$13.0 million price variance resulting from lower oil and natural gas prices.

REVENUE VARIANCE ANALYSIS

(\$ millions)	1998	1997
Volume increase	48.5	13.1
Price increase (decrease)	(13.0)	14.7
Net revenue change	35.5	27.8

Cash flow increased 24 percent in 1998 to a record \$88.1 million. Cash flow per share increased to \$1.62 up 14 percent from \$1.42 per share in 1997. Earnings totalled \$18.2 million, compared to \$23.4 million in 1997. The Company employs successful efforts accounting therefore dry hole costs have been written off as incurred.

CASH FLOW RECONCILIATION

	1998		1997	
Volume (MMcfeq)	81,597		59,320	
(\$ millions)	\$ /Mcf		\$ /Mcf	
Revenue	\$ 165.5	\$ 2.03	\$ 130.4	\$ 2.20
Net royalty	(20.9)	(0.26)	(17.5)	(0.30)
Operating costs	(33.0)	(0.40)	(22.2)	(0.37)
Netback	111.6	1.37	90.7	1.53
G&A and other	(4.5)	(0.05)	(9.4)	(0.16)
Interest on long-term debt	(12.7)	(0.16)	(6.7)	(0.11)
Lease rentals	(4.2)	(0.05)	(2.5)	(0.04)
Large Corporation and other taxes	(2.1)	(0.03)	(1.2)	(0.02)
Cash flow	\$ 88.1	\$ 1.08	\$ 70.9	\$ 1.20
Weighted average shares (millions)	54.3		49.8	
Cash flow per common share	\$ 1.62		\$ 1.42	

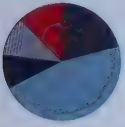
MMcfeq: barrels of oil converted to gas sales on the basis of 1 barrel = 10 Mcf.
Revenue includes petroleum and natural gas revenue and other.

CAPITAL EXPENDITURES

Net capital expenditures in 1998 totalled \$216.0 million, 27 percent of which was dedicated to asset rationalization. This reflects the Company's aggressive exploration and development focus as well as our commitment to the continual improvement of our asset base.

Gross exploration and development capital expenditures totalled \$153.9 million, 73 percent (\$111.7 million) of which was devoted to drilling, geological and geophysical activities, and crown land purchases. Inclusive in this was \$29 million allotted for pure exploration activities, encompassing the Company's extensive exploration program in the Liard Basin. The additional \$42.2 million was spent on equipment and facilities in our core production areas.

Capital Expenditures Profile



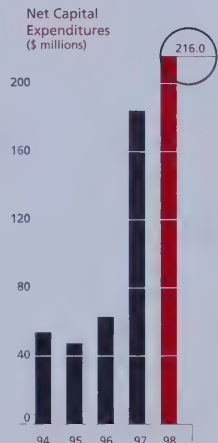
- Northeast Alberta
- Central Alberta and B.C.
- Northwest Alberta
- S.E. Saskatchewan
- Pure Exploration

The majority of Paramount's operating areas are winter-only access; therefore, the bulk of our exploration and development budget was expended in the first half of 1998. Although commodity prices were deteriorating, the fiscal environment for the oil and gas industry in early 1998 was still very overheated. Services and supplies were in high demand, and consequently, companies were forced to pay a premium to ensure planned activity was executed. The effect of low oil prices has now filtered down through the industry, resulting in a drop-off in activity levels and a related decrease in rates for equipment, supplies and manpower. With the Company's leverage to natural gas, we are well positioned to take advantage of these lower costs for goods and services in 1999.

Paramount has budgeted for capital expenditures of \$145 million in 1999, re-investing all of its internally generated cash flow on exploration, development and acquisition opportunities.

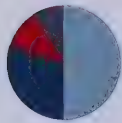
CAPITAL EXPENDITURE PROFILE

	1998		1997	
(\$ millions)		%		%
Drilling and seismic	\$ 103.3	47.8	\$ 52.0	28.2
Crown land purchases	8.4	3.9	9.5	5.2
Property acquisitions (Net of dispositions) and Other	62.1	28.8	55.3	30.0
Plant/gathering and equipment	42.2	19.5	67.4	36.6
Net capital expenditures	\$ 216.0	100	\$ 184.2	100



OPERATED PLANT CAPACITY

Operated Plant Production



- Northeast Alberta operated
- Other operated
- Non-operated
- Oil

Operated plant capacity increased 8 percent in 1998 to 156 MMcf/d as a result of new facility construction at Sousa, facility enhancements at Kettle River and Quigley, and the acquisition of additional interest in our existing Legend and Quigley facilities.

Total company operating costs averaged \$0.40/Mcfq, an increase of 8 percent or \$0.03/Mcfq over 1997 levels; but still within the top quartile of industry. **Operating costs at Paramount-operated facilities averaged \$0.36/Mcfq.**

Paramount is a leader with respect to operations in our northeast Alberta shallow gas core area, averaging operating costs of \$0.32/Mcf. Wherever economically justifiable, we strive to control our throughput and costs with construction of Paramount-operated facilities versus third party processing. With diversification into new operating areas, the Company is producing gas that requires more complex processing. The costs are inherently higher, but the Company is striving to duplicate our low cost structure in northeast Alberta into these new operating areas.

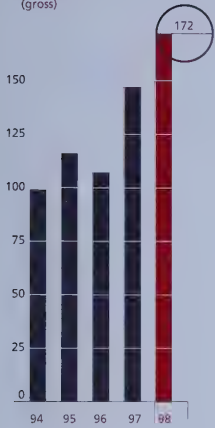
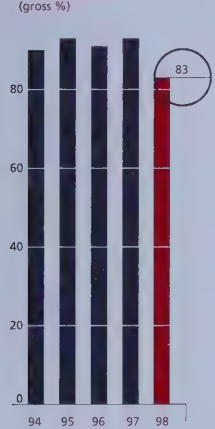
OPERATED PLANT CAPACITY⁽¹⁾

(Defined as at December 31)	1998	1997
Number of gas plants	15	15
Net plant capacity (MMcf/d)	156	144
Gross plant capacity (MMcf/d)	200	193

⁽¹⁾ Capacity is defined as 'best month' production unencumbered by transportation restriction per plant per year.

DRILLING RESULTS

Paramount continued with an active drilling program in 1998, completing 172 gross (103.9 net) wells, with an average 60 percent working interest. Consistent with our corporate operating principles, Paramount aims to maximize our working interest in low to medium risk opportunities while utilizing partnerships to spread the risk on more expensive exploration opportunities, allowing the Company to test a larger volume of high risk/high return prospects in our inventory. As we gain experience in the plays we are pursuing, and understand the limitations of the technology we employ, we become more confident in our expected success rate and move to maximize our working interest. Excluding those wells drilled in southeast Saskatchewan where Paramount's working interest does not exceed 25 percent, Paramount averaged a 61 percent working interest in new pool wildcats versus a 75 percent working interest in development wells.

Wells Drilled
(gross)Drilling Success
(gross %)

Our northeast Alberta shallow gas core area was the Company's most active region for new drilling, where 84 gross (60.2 net) wells were drilled. In the central Alberta/northeast British Columbia core area 34 gross (24.6 net) wells were drilled; 18 gross (9.9 net) wells were drilled in northwest Alberta; and 24 gross (4.9 net) wells were drilled in southeast Saskatchewan. An additional 12 gross (4.3 net) new pool wildcats were drilled with an average 36 percent working interest on numerous prospects including wells in the Liard Basin, the southern Alberta Foothills, and the San Joaquin basin in California.

As growth through the drill bit is paramount, exploratory wells comprised nearly 60 percent of the Company's 1998 drilling program. The Company realized a success rate of 83 percent, particularly distinctive in light of the high proportion of higher risk exploratory wells.

DRILLING RESULTS

	1998		1997	
	Gross	Net	Gross	Net
Exploratory				
Gas	59	38.1	23	10.1
Oil/oil and gas	13	2.9	17	3.2
Standing/Service	6	3.6	8	2.5
Dry	25	11.8	6	1.5
Total Exploratory	103	56.4	54	17.3
Success rate (gross)	76%		89%	
Development				
Gas	50	36.3	58	43.8
Oil/oil and gas	10	3.9	11	2.2
Standing/Service	5	3.8	20	7.1
Dry	4	3.5	4	3.0
Total Development	69	47.5	93	56.1
Success rate (gross)	94%		96%	
All well categories	172	103.9	147	73.4
Success rate (gross)	83%		93%	

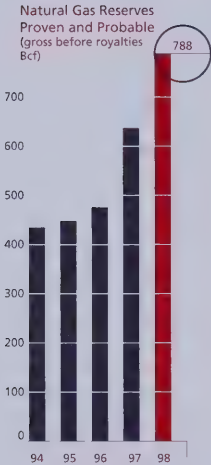
SEISMIC

Where cost effective, Paramount utilizes the most current technology available to enhance its ability to successfully find and develop natural gas and oil reserves.

During 1998, Paramount expended \$4.8 million to add 1,659 kilometers of 2D and 664 square kilometers of 3D seismic data to our inventory of seismic control.

A record amount of 3D was acquired this year. Efforts were focused in southeast Saskatchewan, as well as at Bistcho Lake in northwest Alberta. The 3D seismic data is proving to be critical to our drilling success in both of these geologically complex areas.

RESERVES



On a billion cubic feet equivalent basis, Paramount increased its reserves 28 percent to exit 1998 with natural gas, crude oil, and natural gas liquids reserves of 904.5 Bcfeq. This reserve growth translates into Paramount replacing its 1998 production of 81.6 Bcfeq by 263 percent.

Natural gas reserves increased from a year end 1997 total of 637 Bcf to 788 Bcf at year end 1998, a 24 percent increase. Crude oil and natural gas liquid reserves declined from 13.4 million barrels at year end 1997 to 11.6 million barrels at year end 1998, representing 13 percent of the Company's total reserve base versus 17 percent at year end 1997.

On a proven plus probable basis, Paramount's reserve life index is 10.6 years for natural gas and 16.0 years for crude oil and natural gas liquids.

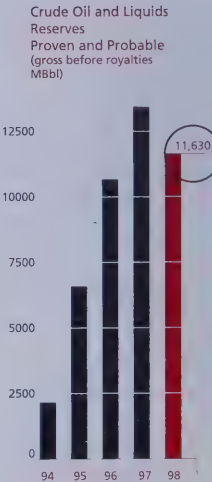
Paramount's reserve reporting was completed by two independent engineering firms at year end 1998. McDaniel & Associates Consultants Ltd. were employed to evaluate the majority of the assets of the Company, and Gilbert Laustsen Jung Associates Ltd. evaluated Paramount's assets in southeast Saskatchewan.

NATURAL GAS RESERVES

	1998		1997	
	Bcf	% of Total	Bcf	% of Total
Proven: Producing	412.8	52	357.0	56
Non-producing	194.5	25	124.7	20
Subtotal	607.3	77	481.7	76
Probable additional	180.9	23	155.1	24
All reserve categories	788.2	100	636.8	100

CRUDE OIL AND LIQUIDS RESERVES

	1998		1997	
	MBbl	% of Total	MBbl	% of Total
Proven: Producing	5,018	43	4,912	36
Non-producing	2,877	25	3,474	26
Subtotal	7,895	68	8,386	62
Probable additional	3,735	32	5,054	38
All reserve categories	11,630	100	13,440	100



LAND

Land inventory at the end of 1998 totalled 2.4 million net acres, a 20 percent increase over year end 1997. Paramount increased its undeveloped land holdings by 24 percent year over year to 1.5 million net acres at December 31, 1998 from 1.2 million net acres at year end 1997. Historically, Paramount has grown through successful conventional exploration, with acquisitions confined to property additions that complement our established exploration and production activity. Paramount's undeveloped land portfolio provides the base to continue developing future growth prospects for the Company.

The fair market value assigned to Paramount's undeveloped land increased by 34 percent year over year to \$63.0 million. The value of the Company's undeveloped land was assigned by McDaniel & Associates Consultants Ltd.

LAND

	1998		1997	
(thousand acres)	Net	Gross	Net	Gross
Land assigned reserves	917 (38%)	1,356	809 (40%)	1,204
Undeveloped land	1,516 (62%)	2,674	1,223 (60%)	2,351
Total	2,433	4,030	2,032	3,555
Value of undeveloped land				
@ FMV (\$ millions)	\$ 63.0		\$ 47.0	

FINDING AND DEVELOPMENT COSTS

As Paramount is a full cycle exploration and development company, we believe that the historical rolling average approach to finding and on-stream costs is more representative of true performance. For any given project, reserve additions are not necessarily booked in the same year that the bulk of the exploration and development capital is expended.

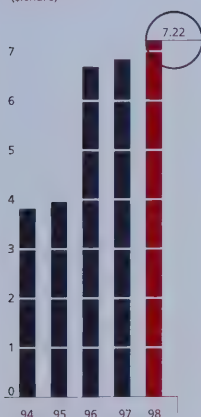
Paramount calculates finding and development costs through the following formula:

$$\text{Total capital expenditures} - \text{disposition proceeds} \pm \text{change in fair market value of undeveloped lands} \\ \text{Proven and 50\% probable reserve additions} \\ (\text{oil to gas conversion of 1 barrel} = 10 \text{ Mcf})$$

Paramount's finding and development costs on a five-year rolling average basis for the period from 1994 through to 1998 are \$0.76/Mcfeq.

NET ASSET VALUE

Net (Appraised)
Asset Value
(\$/share)



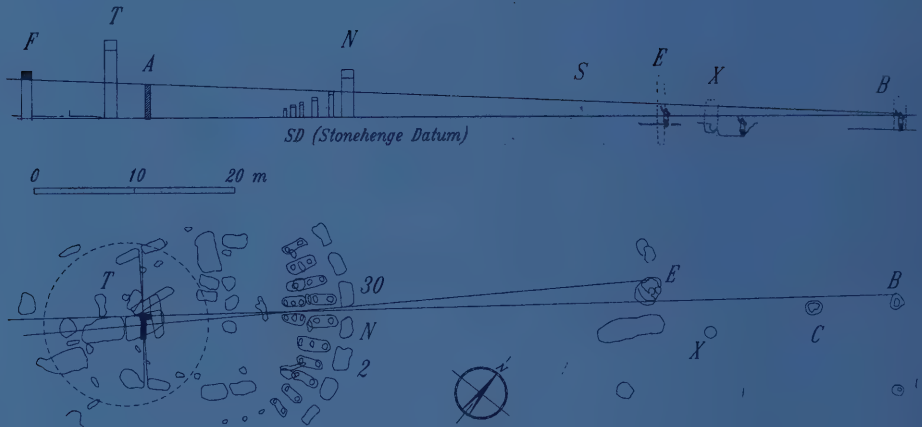
Paramount's net (appraised) asset value at year end 1998 increased 6 percent to \$7.22 per share. A 26 percent increase in the estimated value of the Company's assets was offset somewhat by a 62 percent increase in net debt. Paramount believes this debt leverage will translate into additional value for the Company as reserves are booked and cash flow is realized.

NET (APPRAISED) ASSET VALUE

(\$ millions as at December 31)	1998	1997
Reserve value (Escalating price assumption)		
@ 15 percent discount, before royalties	\$ 570.7	\$ 453.0
Alberta Royalty Tax Credit (ARTC) ⁽¹⁾		
@ 15 percent discount	6.5	6.2
Fair market value of undeveloped land	63.0	47.0
Subtotal	640.2	506.2
Working capital (deficiency)	(2.3)	2.1
Total Assets	637.9	508.3
Less: Long-term debt (operating)	(226.4)	(139.5)
Net (appraised) asset value ⁽¹⁾	\$ 411.5	\$ 368.8
Net (appraised) asset value per share ⁽²⁾	\$ 7.22	\$ 6.84

⁽¹⁾ ARTC: only on proven reserves

⁽²⁾ Outstanding shares: at year end 1998 - 56,953,600; 1997 - 53,953,600



Our strategy hasn't changed much in twenty years.

vision

a company with



"Paramount has concentrated its exploration efforts in relatively remote areas...where it is still possible to obtain large acreage holdings with the prospect of finding significant reserves should exploration be successful."

1979 Annual Report

"Paramount's corporate objective is to turn ideas, whether geological, technical, strategic, marketing related, or otherwise, into value for our shareholders."

"Implicit in our strategy is perseverance; learning from our experiences, adapting primary ideas with potential and extrapolating profitable ideas along trend and to new areas." *1997 Annual Report*

Paramount's strategy has stood the test of time and will continue to guide future decision-making.

Our operating principles remain to:

- pursue a balanced risk portfolio;
- maximize working interest in low to medium risk opportunities;
- utilize partnerships to spread risk in more expensive, high return plays;
- pursue complimentary asset acquisitions; and
- control costs.



Production Distribution 1998



Production Distribution 1999 Estimate



	1998		1999E	
	Natural gas (MMcf/d)	Crude oil and NGL's (Bbl/d)	Natural gas (MMcf/d)	Crude oil and NGL's (Bbl/d)
N.E. Alberta	162.5	–	175	–
Central Alberta/N.E. British Columbia	30.3	682	75	1,000
N.W. Alberta	10.7	35	20	–
S.E. Saskatchewan	–	1,231	–	2,000
Other	–	40	–	–
Total	203.5	1,988	270	3,000

Paramount has a significant inventory of both producing properties and exploration opportunities in four core producing areas: northeast Alberta; central Alberta and northeast British Columbia; northwest Alberta; and southeast Saskatchewan. In addition, the Company dedicates approximately 25 percent of our total capital budget to pure exploration activities, recognizing this as the means to continually replenish our development project inventory.

As the opportunities vary from each of the core areas, no single strategy can be applied to all projects in our inventory. Instead, Paramount selectively applies the technology and strategy which best fits specific prospects in order to optimize value from each opportunity in our inventory.

The following series of working maps describes the Company's 1998 and first quarter 1999 activity in a number of "highlight" properties from each of the core areas.

EAST LIEGE/SOUTH LIEGE

GENERAL

- Currently developing Cretaceous Wabiskaw sands utilizing horizontal drilling technology

DRILLING

- Drilled 13 horizontal wells during the winter 1998/99 drilling season

FACILITIES

- East Liege plant constructed in the first quarter of 1999 capable of 16 MMcf/d
- Constructed 18 km gathering system and tied-in 7 wells to the newly constructed East Liege plant in first quarter 1999
- Constructed 2 km gathering system and tied-in 3 wells to the existing South Liege plant in first quarter 1999

LAND

- Average working interest in this project is 99 percent

PRODUCTION

- Production start-up in April, 1999
- 1999 production forecast 21.5 MMcf/d

Core Area northeast Alberta

- High deliverability shallow gas from the Devonian Wabamun, Grosmont, and Leduc as well as Cretaceous McMurray, and Wabiskaw Formations
- Drilling depths less than 350 meters
- Average reservoir pressure 200 to 1,700 kPa

Five producing properties in 1998	Average Net 1998 Production	Average Land Working Interest
Legend	14.6 MMcf/d through PRL-operated gas plant	100% effective July 1998
Teepee Creek	10.7 MMcf/d through partner operated gas plant	63%
South Liege	9.3 MMcf/d through PRL-operated gas plant	92%
Salecki	6.7 MMcf/d through PRL-operated gas plant	82%
North Liege	5.3 MMcf/d through PRL-operated gas plant	91%
Production	1998 - 48 MMcf/d	1999 Forecast - 53 MMcf/d
Undeveloped Land	472,465 net acres	

west side

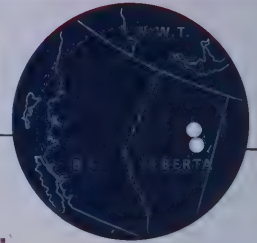
19W4

Paramount
East Liege Gas Plant

East Liege

20W4

South Liege

Paramount South
Liege Gas Plant

T92

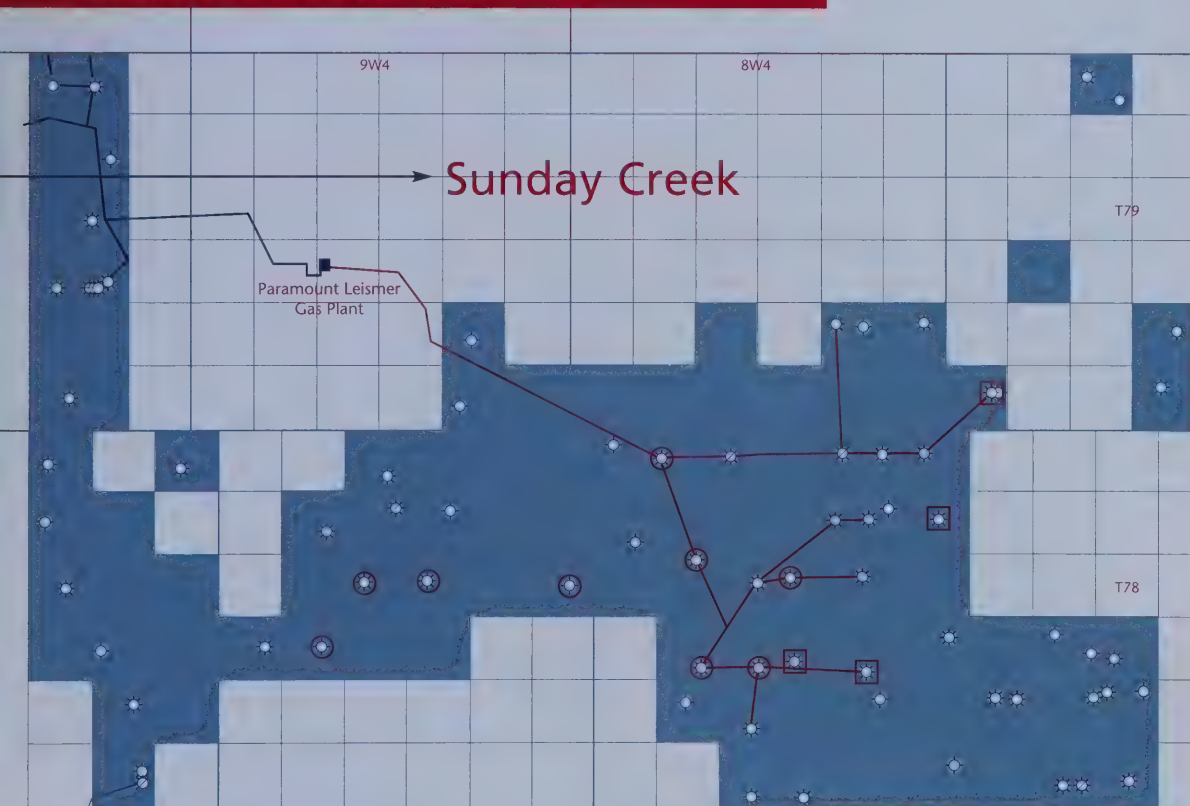
T91

190

- Multi-objective Cretaceous gas in the McMurray, Clearwater, Wabiskaw and Grand Rapids Formations
- Drilling depths up to 450 meters
- Average reservoir pressure 600-2,200 kpa
- Maintenance acreage for future deliverability

Fifteen producing properties in 1998	Average Net 1998 Production	Average Land Working Interest
Corner	25.2 MMcf/d through PRL-operated gas plant	100%
Kettle	24.8 MMcf/d through PRL-operated gas plant	94%
Cold Lake	13.3 MMcf/d through midstream processor	76%
Thornbury	6.8 MMcf/d through midstream processor	69%
Quigley	11.6 MMcf/d through PRL-operated gas plant	96%
Winifred	6.5 MMcf/d through midstream processor	73%
Leismer	3.1 MMcf/d through PRL-operated gas plant	85%
South Leismer	4.8 MMcf/d through PRL-operated gas plant	94%
Primrose	4.3 MMcf/d through partner-operated gas plant sold effective July 1998	
Chard	3.4 MMcf/d through PRL-operated gas plant	85%
Clyde	2.5 MMcf/d through PRL-operated gas plant	49%
Chard SW/Pony/Other	8.2 MMcf/d generally non-operated production	Misc.
Production	1998 115 MMcf/d	1999 forecast 120 MMcf/d
Undeveloped Land	228,526 net acres	

- 1998 wells
- wells drilled winter 1998/99
- pipeline construction 1998 and 1999
- existing pipeline
- Paramount lands
- ☆ gas well
- location
- ◇ dry hole



SUNDAY CREEK

GENERAL

- Shallow gas play with Cretaceous objectives in both the McMurray and Clearwater Formations

DRILLING

- Drilled 9 exploratory and development wells in 1998
- Followed up with 4 new infill wells during winter 1998/99 drilling season

SEISMIC

- Acquired 60 km of 2D data through a property swap in 1998

FACILITIES

- Constructed 44 km gathering system and tied-in 17 wells to Leismer plant in first quarter 1999

LAND

- 47.3% joint venture with non-operating industry partner

PRODUCTION

- Production start-up in February, 1999
- 1999 production forecast 5.5 MMcf/d
- Additional 25 sections of prospective undrilled land

Core Area central Alberta/N.E. B.C.

Six major producing properties

		Average Land Working Interest
Kaybob	- Sweet gas in the Cretaceous Viking and Gething Formations - Drilling depths up to 1,800 meters - Paramount operated plant on-stream in April 1994	90%
Kaybob North	- Sweet gas in the Cretaceous Viking, Notikewin, Fahler, Bluesky, and Gething Formations - Drilling depths up to 2,000 meters - Produces to the third party operated Kaybob North facility	75%
Kaybob South	- Sweet gas in the Cretaceous Gething Formation - Drilling depths up to 2,000 meters - Production commenced in 1994 to the third party operated Windfall facility	80%
Kaybob West	- Triassic Montney Formation oil - Drilling depths up to 2,000 meters - Paramount operated oil battery commissioned in 1996	100%
Fox Creek	- Sweet gas in the Cretaceous Viking, Spirit River, Notikewin and Gething Formations - Drilling depths up to 2,000 meters - Production commenced in 1998 to the third party operated Kaybob Amalgamated facility	100%
Zaremba	- Oil and gas in the Cretaceous Bluesky and Gething, and the Triassic Charlie Lake and Halfway Formations - Drilling depths up to 1,500 meters - Production commenced in 1994 to the Paramount operated Zaremba facility	60%
Production	1998 37 MMcfq/d	1999 Forecast 85 MMcfq/d
Undeveloped Land	296,433 net acres	



FOX CREEK

GENERAL

- Increased development drilling in 1998 and 1999 to exploit known producing Cretaceous Viking, Spirit River, Notikewin and Gething pools
- Year round access area

DRILLING

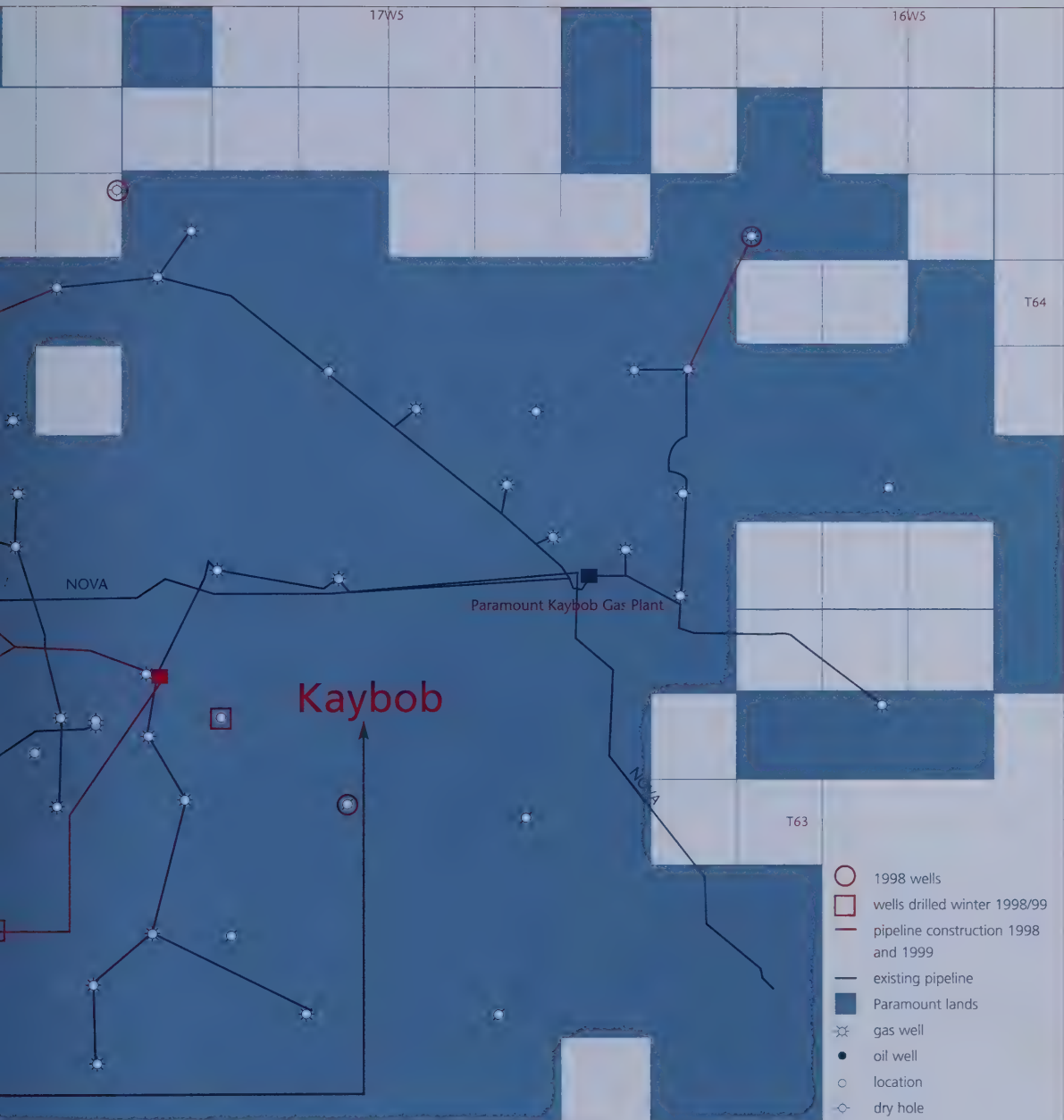
- Drilled 7 wells in 1998/99 including 1 underbalanced horizontal

FACILITIES

- Constructed a 4 km gathering system and tied-in 2 wells to the Kaybob Amalgamated plant in third quarter 1998
- Constructed a 10 km gathering system and tied-in an additional 6 wells to the Kaybob North plant in first quarter 1999

PRODUCTION

- Production start-up in August 1998
- 1999 production forecast 8 MMcf/d



KAYBOB

GENERAL

- Multiple Cretaceous objectives in the Dunvegan, Viking, Notikewin, Spirit River and Gething Formations
- Year round access area

DRILLING

- Drilled 6 exploratory and development wells in 1998
- Followed up with 2 additional wells in 1999
- Purchased interest in one completed Notikewin wellbore in first quarter 1999

SEISMIC

- Purchased 20 km of 2D trade data and acquired a 25 square kilometer 3D seismic survey in 1998

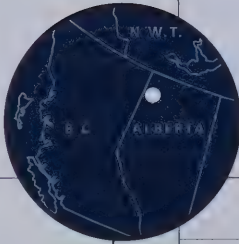
FACILITIES

- Constructed a 5 km gathering system and tied-in 3 wells to the Paramount-operated Kaybob plant in first quarter 1998
- Constructed 20 km of gas gathering system to tie-in an additional 7 wells in first quarter 1999
- Installed booster compression in first quarter 1999 to supplement tie-in of additional and existing wells

PRODUCTION

- 1998 production averaged 6.4 MMcf/d
- 1999 production forecast is 13.6 MMcf/d

Core Area northwest Alberta



Three producing properties

Average Land
Working Interest

Bistcho Lake

- Middle Devonian Slave and Sulphur Point sour gas
- Drilling depths up to 1,500 meters
- Production start-up in April 1997 at Paramount-operated plant

40.75%

Souna

- Multi-objective Devonian Slave Point Cretaceous gas and Keg River oil
- Drilling depths up to 1,700 meters
- Production start-up in 1998 at Paramount-operated plant

50% (oil)
100% (gas)

Pedigree

- Mississippian Debolt gas
- Drilling depths approximately 800 meters
- Production start-up in 1998 through third party Fontas River plant
- Multiple exploration objectives in the Cretaceous and Devonian

100%

Production 1998 11 MMcf/d 1999 Forecast 20 MMcf/d

Undeveloped Land 260,650 net acres

Exploration Projects Cameron Hills, N.W.T., Esk Lake, Gator, Larne, Russet, Negus, and Hotchkiss

Pedigree

- 1998 wells
- wells drilled winter 1998/99
- pipeline construction 1998 and 1999
- third party pipeline
- Paramount lands
- 1998 acquisitions
- ⊗ gas well
- location
- ◇ dry hole



PEDIGREE

DRILLING

- Drilled 2 wells including 8-27-103-11W6 Mississippian Debolt gas discovery
- Drilled 1 development well at 12-23-103-11W6 and 1 new pool wildcat at 4-14-102-10W6 in 1999

SEISMIC

- Acquired 368 km of 2D data through industry trade and property acquisition in 1998 and first quarter 1999

FACILITIES

- Constructed 7 km 8 inch pipeline to Fontas River plant to tie-in 8-27 discovery well in 1998

- Tied-in development step-out at 12-23 in first quarter 1999

LAND

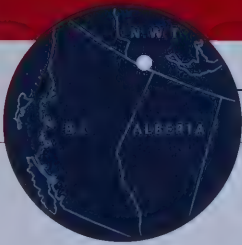
- Acquired 20,450 gross (19,042 net) acres with 1 producing gaswell
- Negotiated pooling and farm-in option in Townships 101 and 102 Range 10W6M

PRODUCTION

- Production start-up in April, 1998
- Average annualized 1998 production 2.1 MMcf/d
- 1999 production forecast 4 MMcf/d

Exploration

		Average Land Working Interest
Liard Basin	- Multi-zone Devonian, Mississippian and Cretaceous gas - Drilling depths up to 3,400 meters	27.5 to 50%
Shallow Gas	- Paleozoic subcrop and Cretaceous stratigraphic gas traps - Drilling depths less than 600 meters	45 to 100%
Traissic Subcrop	- Multiple Triassic horizons with gas/oil potential - Drilling depths from 1,000 to 1,300 meters	50%
Southern Alberta Foothills	- Mississippian and Devonian oil and gas prospects - Drilling depths up to 4,000 meters	20 to 25%
San Joaquin Basin	- Deep structural gas/oil play targeting thick Tertiary sand sequence - Drilling depths up to 5,600 meters	10.7%



Liard Basin

- 1998 wells
- wells drilled winter 1998/99
- Paramount lands
- gas well
- location
- dry hole

LIARD BASIN

- Increased working interest to 50% through successful acquisition of 70,638 net acres of joint interest lands and 2 shut-in gas wells.
- Active winter 1998/99 exploration program with 3 drilling rigs and 1 service rig to resume operations on 5 wells drilled in 1998 and drill 4 new locations.

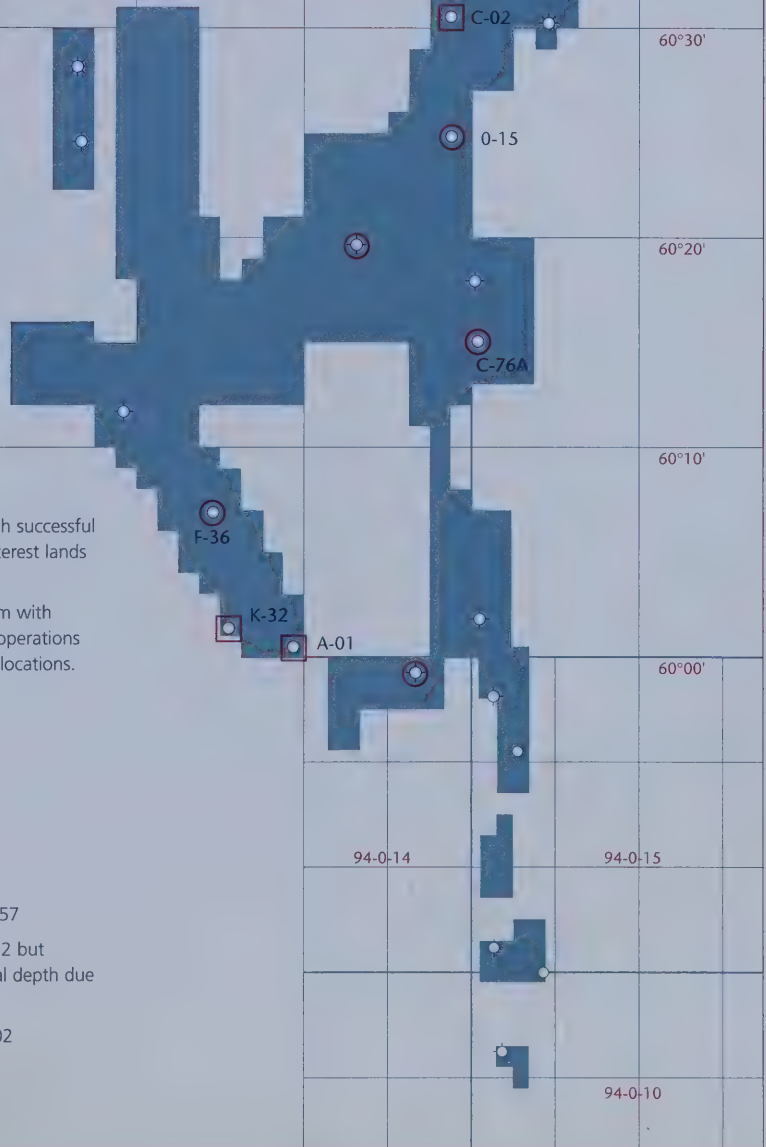
1998/99 WINTER ACTIVITY

1998 wells:

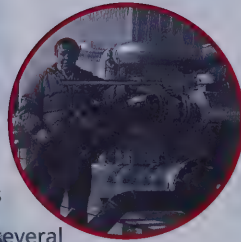
- Resumed drilling at M-23, O-15 and F-36
- Completed N-65 as a gaswell
- Drilled horizontal sidetrack at C-76A

1999 locations:

- Drilled and suspended Devonian test at P-57
- Drilled two Mattson tests at A-01 and K-32 but suspended operations before reaching total depth due to break-up
- Drilled and cased intermediate hole at C-02



financials



"The growth of a young Canadian oil and gas company can be measured by the passing of several specific milestones. To Paramount Resources Ltd. the advent of its first major production is one of those enormously significant benchmarks. The placing on production of four fields in northeast Alberta ensures the Company financial viability. It marks the culmination of years of exploration and development of shallow gas reserves in northeast Alberta where Paramount can indeed be called the leader in exploration" ... 1982 Annual Report

"Paramount's success demonstrates that the Company has had a good formula for growth." 1997 Annual Report

MANAGEMENT'S DISCUSSION & ANALYSIS

THE FOLLOWING DISCUSSION AND ANALYSIS, AS PROVIDED BY THE MANAGEMENT OF PARAMOUNT RESOURCES LTD., SHOULD BE READ IN CONJUNCTION WITH THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS INCLUDED ELSEWHERE IN THIS ANNUAL REPORT.

HIGHLIGHTS

Paramount is highly leveraged to natural gas with 90 percent of revenue from this source

Production increased 37 percent to average 223 MMcf of natural gas equivalent per day

Cash flow increased 24 percent to \$88.1 million

Net earnings totalled \$18.2 million

Capital expenditures totalled \$216 million, up 17 percent

For the purpose of comparing the Company's revenues and costs on a unit-of-production basis, crude oil and liquids volumes have been converted to natural gas (Mcfeq) on the basis that one barrel of oil equals 10 Mcf of gas.

ACCOUNTING POLICY

Paramount follows the "successful efforts" method of accounting for its petroleum and natural gas operations. This method, unlike the alternative full cost accounting method, usually generates a more conservative value for net earnings and cash flow as exploration expenditures, including exploratory dry hole costs, geological and geophysical costs, lease rentals on undeveloped properties as well as the cost of surrendered leases and abandoned wells, are expensed rather than capitalized in the year incurred. However, to make reported cash flow results comparable to industry practice, Paramount reclassifies geological and geophysical costs as well as surrendered leases and abandonment costs from operating to investing activities.

REVENUE

Production Revenue (\$ thousands)	1998	1997	1996
Natural gas	\$ 149,841	\$ 115,096	\$ 85,191
Crude oil and natural gas liquids	14,115	13,397	15,453
	\$ 163,956	\$ 128,493	\$ 100,644

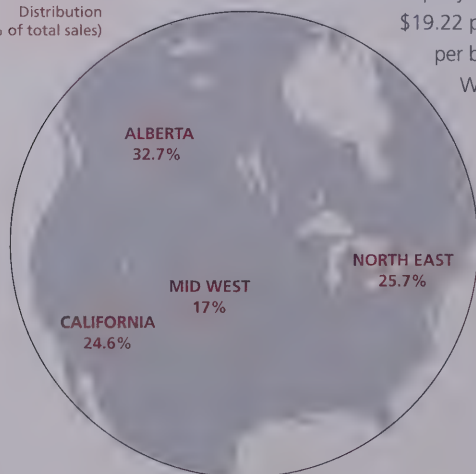
Petroleum and natural gas revenue increased 28 percent in 1998 to \$164.0 million from \$128.5 million in 1997 (1996 – \$100.6 million), a direct result of increased natural gas sales. Paramount's 1998 production profile was significantly weighted to natural gas with over 90 percent of Company's sales attributable to this commodity.

Natural gas sales increased 37 percent to 203.5 MMcf/d in 1998 from 148.6 MMcf/d in 1997 (1996 – 127.1 MMcf/d). Paramount's natural gas sales price averaged \$2.02 per Mcf in 1998 as compared to \$2.12 per Mcf in 1997 (1996 – \$1.84 per Mcf).

During 1998 approximately 60 percent of Paramount's natural gas sales were to long-term contracts sold through gas aggregators and direct sales purchasers as compared to 62 percent and 76 percent for 1997 and 1996, respectively.

NATURAL GAS SALES PER MARKET GROUP

		1998		1997		1996	
		Bcf	%	Bcf	%	Bcf	%
Long term contracts							
Aggregators							
Pan Alberta	Midwestern U.S., the U.S. Pacific Northwest, California and Quebec	25.7	34.6	17.9	33.0	15.8	34.0
Progas	Northeastern U. S.	8.8	11.8	5.0	9.2	8.8	19.0
Canstates/Temco	Northeastern U. S.	4.3	5.8	4.7	8.7	4.6	9.9
		38.8	52.2	27.6	50.9	29.2	62.9
Direct sales Selkirk	New York State	6.0	8.1	6.0	11.1	6.1	13.2
Subtotal		44.8	60.3	33.6	62.0	35.3	76.1
Short term markets							
Spot – California		11.6	15.6	11.2	20.7	11.0	23.7
Spot – Alberta/B.C.		17.9	24.1	9.4	17.3	0.1	0.2
Total		74.3	100.0	54.2	100.0	46.4	100.0

Natural Gas Sales
Distribution
(% of total sales)

The Company's average liquids price in 1998 decreased 27 percent to \$19.22 per barrel from \$26.36 per barrel in 1997 (1996 – \$27.91 per barrel), consistent with a 30 percent decrease in the average West Texas Intermediate (WTI) price. The WTI price for crude oil averaged U.S. \$14.40 per barrel during 1998, down from U.S. \$20.61 per barrel in 1997 (1996 – U.S. \$22.02 per barrel).

Revenues in 1999 will be impacted by exploration success and production volumes as well as external factors such as the market for natural gas sales, the exchange rate of the Canadian dollar relative to the U.S. dollar and the WTI price for crude oil. Paramount has access to U.S. priced gas sales through aggregator contracts and direct sales and is well positioned to benefit from price increases attributable to increased pipeline take-away capacity

ROYALTIES

Royalties (\$ thousands)	1998	1997	1996
Crown royalties	\$ 19,751	\$ 16,915	\$ 7,902
Other royalties	2,510	1,835	1,356
	22,261	18,750	9,258
Alberta Royalty Tax Credit	(1,387)	(1,210)	(1,495)
Total royalties	\$ 20,874	\$ 17,540	\$ 7,763
Average corporate royalty rate	12.73%	13.65%	7.71%

Royalties are paid by Paramount to the owners of mineral rights with whom the Company holds leases. Paramount has mineral leases with the Crown (Provincial and Federal Governments), free-holders and other operators with whom the Company has joint interests.

During 1998, royalties net of Alberta Royalty Tax Credit (ARTC) increased 19 percent to \$20.9 million from \$17.5 million in 1997 (1996 – \$7.8 million). As a percentage of production revenue, Paramount's corporate royalty rate of 12.73 percent was only slightly lower than the 1997 rate of 13.65 percent (1996 – 7.71 percent).

In 1994, the Alberta Government introduced a simplified natural gas royalty system which allowed producers the option of selecting a corporate average price or government-designated reference price as the basis upon which Crown royalties would be levied. Paramount initially selected the corporate average price method, but effective January 1, 1998, switched to the Alberta-designated reference price.

During 1996 the Government provided to industry Crown royalty invoices for the years 1994 and 1995, enabling the Company to reconcile Crown royalties previously paid by estimate. Upon reconciliation of the account, it was determined that Crown royalties paid and recorded during those years had been overstated, which overstatement is recorded in 1996 as a reduction of Crown royalty expense.

The average corporate royalty rate in 1999 is expected to remain at levels experienced by Paramount in 1998.

OPERATING EXPENSES

Operating Expenses (\$ thousands)	1998	1997	1996
Operating expenses	\$ 33,005	\$ 22,213	\$ 16,196
Net operating expenses per Mcfeq	\$ 0.40	\$ 0.37	\$ 0.31

Paramount's 1998 operating expenses increased 48 percent to \$33.0 million from \$22.2 in 1997 (1996 – \$16.2 million), a direct result of a 37 percent increase in production volumes.

On a unit-of-production basis, average operating costs increased 8 percent to \$0.40/Mcfeq from \$0.37/Mcfeq in 1997 (1996 – \$0.31/Mcfeq). The increase reflects higher costs associated with operating wells and facilities in remote areas including initial fixed costs during the start-up phase as well as generally higher costs related to the over demand for services during the year. As further production increases are achieved in many areas, it is expected that costs on a unit-of-production basis will decline.

For 1999, average operating costs on a unit-of-production basis are expected to decrease as production volumes increase and processing capacity is optimized.

GENERAL AND ADMINISTRATIVE EXPENSES

General and Administrative Expenses (\$ thousands)	1998	1997	1996
Gross general and administrative expenses	\$ 13,471	\$ 11,522	\$ 11,138
Operating recoveries	(9,506)	(7,408)	(6,680)
General and administrative expenses before SARP	3,965	4,114	4,458
Stock appreciation rights plan ("SARP")	487	5,291	1,514
Net general and administrative expenses	\$ 4,452	\$ 9,405	\$ 5,972
Net general and administrative expenses per Mcfeq	\$ 0.05	\$ 0.15	\$ 0.11

General and administrative expenses, net of recoveries and before costs associated with the share appreciation rights plan, decreased to \$4.0 million in 1998 as compared to \$4.1 million in 1997 (1996 – \$4.5 million). Paramount does not capitalize any general and administrative expenses.

The share appreciation rights plan was introduced in 1994, replacing employee share options as an incentive plan for key employees. Under this plan, participants are entitled to receive a benefit of an amount equal to the positive difference between the exercise price and market price of the Company stock, which difference is charged to general and administrative expenses.

General and administrative expenses are expected to remain at current levels in 1999 with costs on a unit-of-production basis decreasing as production volumes increase.

INTEREST EXPENSE

Interest Expense (\$ thousands)	1998	1997	1996
Interest expense	\$ 12,745	\$ 6,698	\$ 6,382
Bank loans, December 31	\$ 224,476	\$ 139,518	\$ 63,046
Debt-to-cash flow ratio	2.55	1.97	1.00

Interest expense, representing interest on bank debt, increased to \$12.7 million from \$6.7 million in 1997 (1996 – \$6.4 million). The increase reflects higher average debt levels throughout the year, a direct result of the Company's capital expenditure program which totalled approximately \$216.0 million. During 1998, the bank's prime lending rate averaged approximately 6.83 percent, compared to 5.37 percent in 1997 (1996 – 6.25 percent). The Company does not capitalize any interest expense.

To control the risk associated with interest rate exposure, the Company has in place the following interest rate swap arrangements which have the effect of fixing the amount of interest charged on Cdn. \$30.5 million and U.S. \$20.0 million of bank debt.

(i) Cdn. \$30.5 million at an all in rate of 8.42 percent to August 11, 2000.

(ii) U.S. \$20.0 million at an all in rate of 6.5 percent to October 26, 1999.

In November 1998, Paramount completed an equity issue of 3 million common shares at a price of \$15.00 per share for gross proceeds of \$45 million. Proceeds from the issue were initially used to reduce bank indebtedness.

DRY HOLE COSTS

Under the successful efforts method of accounting, costs of drilling exploratory wells are initially capitalized and, if subsequently determined to be unsuccessful, are charged to dry hole expense. All other exploration costs, including geological and geophysical costs and annual lease rentals, are charged to exploration expense as incurred.

During 1998 dry hole costs totalled \$11.7 million as compared to \$7.4 million in 1997 and \$2.1 million in 1996.

DEPLETION, DEPRECIATION AND AMORTIZATION

The current year provision for depletion, depreciation and amortization expense totalled \$46.6 million as compared to \$33.1 million in 1997 (1996 – \$23.8 million). On a unit-of-production basis, depletion and depreciation costs increased 3.5 percent to \$0.57/Mcfeg from \$0.55/Mcfeg in 1997 (1996 – \$0.45/Mcfeg).

Included in the provision is the amortization of deferred foreign exchange losses related to the U.S. \$20 million Libor loan which in 1998 totalled \$1.6 million (1997 – \$0.5 million; 1996 – \$0.4 million). The losses result from a weak Canadian dollar relative to the exchange rate in effect at the time of the U.S. dollar financing. At December 31, 1998, the unamortized deferred foreign exchange loss totalled \$2.6 million as compared to \$1.8 million in 1997 (1996 – \$1.1 million).

For 1999, the provision for depletion and depreciation is expected to increase as a function of continued growth in production volumes. Increases or decreases in the depletion rate on a unit-of-production basis will be influenced by the reserves added through the 1999 drilling program or by acquisition.

PROVISION FOR FUTURE SITE RESTORATION AND ABANDONMENT COSTS

On an annual basis the Company reviews the liability for future site restoration and abandonment costs. For 1998 the provision totalled \$0.9 million as compared to \$0.7 million in 1997 (1996 – \$0.6 million).

INCOME TAXES

Estimated Income Tax Pools (\$ thousands)	December 31, 1998
Undepreciated Capital Costs	\$ 144,000
Canadian Oil and Gas Property Expenses	132,000
Canadian Exploration Expenses	54,000
Canadian Development Expenses	89,000
Other	7,000
Total Estimated Income Tax Pools	\$ 426,000

In 1998, Paramount recorded current income tax expense, comprised of the Large Corporation Tax and Saskatchewan Capital Tax, in the amount of \$2.1 million as compared to \$1.2 million in 1997 (1996 – \$0.6 million).

The provision for deferred income taxes decreased to \$9.0 million from \$17.0 million in 1997 (1996 – \$10.9 million). At December 31, 1998, the Company had approximately \$2.0 million of unamortized costs which are not deductible for income tax purposes (1997 – \$2.4 million). This amount is being amortized at the Company's annual depletion rate.

Paramount has available approximately \$426.0 million of unutilized tax pools at December 31, 1998. These tax pools, in addition to tax pools generated as a result of the Company's 1999 capital expenditure program, will be available for deduction in 1999 in accordance with Canadian income tax regulations at varying rates of amortization. Based on these tax pools and Paramount's most recent forecast of 1999 financial results and level of capital reinvestment, the Company is not expected to pay current income taxes in 1999.

CASH FLOW AND EARNINGS

(\$ thousands)	1998	1997	1996
Net earnings	\$ 18,210	\$ 23,389	\$ 25,462
Weighted average shareholders' equity	\$ 233,300	\$ 162,300	\$ 104,600
After-tax rate of return	7.8	14.4	24.3

Paramount's cash flow from operations increased 24 percent to \$88.1 million or \$1.62 per common share from \$70.9 million or \$1.42 per common share in 1997 (1996 – \$63.1 million or \$1.32 per common share). The weighted average shares outstanding totalled 54.3 million in 1998 compared to 49.8 million in 1997 (1996 – 47.9 million).

Earnings decreased 22 percent to \$18.2 million or \$0.34 per common share compared to \$23.4 million or \$0.47 per common share in 1997 (1996 – \$25.5 million or \$0.53 per common share).

Paramount's three-year average after-tax rate of return on a book basis, based upon the weighted average shareholders' equity invested was 15 percent.

NETBACKS

Netbacks (\$/Mcfeq)	1998	1997	1996
Revenue	\$ 2.03	\$ 2.20	\$ 1.94
Royalties (net of ARTC)	0.26	0.30	0.15
Operating costs	0.40	0.37	0.31
Operating netback	1.37	1.53	1.48
General and administrative	0.05	0.16	0.09
Lease rentals	0.05	0.04	0.04
Interest on long-term debt	0.16	0.11	0.12
Large Corporation and other taxes	0.03	0.02	0.01
Cash netback	\$ 1.08	\$ 1.20	\$ 1.22

CAPITAL EXPENDITURES

Capital Expenditures (\$ thousands)	1998	1997	1996
Land	\$ 8,449	\$ 9,500	\$ 9,500
Geological and geophysical	5,119	1,952	2,921
Exploration and development drilling	98,139	50,048	21,179
Production equipment and facilities	42,212	67,400	30,600
Exploration and development expenditures	153,919	128,900	64,200
Property acquisitions	78,063	77,000	11,200
Property dispositions	(19,042)	(22,600)	(27,100)
Other	3,042	900	14,800
Total Capital Expenditures	\$ 215,982	\$ 184,200	\$ 63,100

During 1998, Paramount participated in the most active drilling program in its history. Expenditures for exploration and development activities increased to \$153.9 million from \$128.9 million in 1997 (1996 – \$64.2 million). A total of 172 gross (103.9 net) wells were drilled during the year, compared to 147 gross (73.4 net) wells in 1997.

Total capital expenditures, including property acquisitions net of dispositions, amounted to \$216.0 million in 1998 as compared to \$184.2 million in 1997 and \$63.1 million in 1996. The capital expenditure program was financed by internally generated cash flow of \$88.1 million, the issue of 3 million common shares for gross proceeds of \$45 million, and additional bank borrowings.

Paramount's 1999 capital expenditure program of \$145 million is expected to be funded by internally generated cash flow.

INVESTMENT IN DRILLING COMPANY

Paramount owns a 50 percent interest in a private company established to operate drilling rigs in Western Canada.

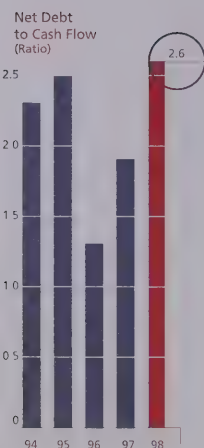
The Company accounts for its interest using proportionate consolidation whereby its prorata share of the financial results are combined on a line-by-line basis with similar items in the Company's financial statements.

During 1998 a single drilling rig was constructed. The drilling rig became operational during the first quarter of 1998 and has been utilized by the Company throughout the year.

DEFERRED REVENUE

During 1998 Paramount recognized in revenue \$1.1 million (1997 – \$1.2 million, 1996 – \$2.1 million) of deferred revenue primarily related to the settlement of natural gas commodity hedging contracts that were previously put in place to shelter the Company from declining gas prices. Paramount's accounting policy recognizes these gains in the accounting years of related production. The amounts of deferred hedging gains that will be recognized in revenue by the Company in future years are as follows:

Deferred Revenue (\$ thousands)	Amount
1999	\$ 1,344
2000	1,235
2001	1,160
2002	1,032
2003	395
Total Deferred Revenue	\$ 5,166



BANK DEBT, LIQUIDITY AND RISK MANAGEMENT

Paramount's debt and equity capital structure at December 31, 1998, was as follows:

(\$ thousands, except per share)	AT COST			AT MARKET ⁽¹⁾		
	Amount	%	\$/Share ⁽²⁾	Amount	%	\$/Share ⁽²⁾
Bank debt, net of working capital	228.9	50.7	4.02	228.9	20.0	4.02
Deferred taxes	63.6	14.1	1.12	63.6	5.5	1.12
Common share equity	159.0	35.2	2.79	854.3	74.5	15.00
Total	451.5	100.0	7.93	1,146.8	100.0	20.14

⁽¹⁾ Close at December 31, 1998 – \$15.00/share.

⁽²⁾ At December 31, 1998 – 56,953,600 common shares.

The Company has an Extendible Revolving Term Credit Facility ("Credit Facility") with a Canadian chartered bank in the amount of \$300 million including a \$25 million working capital facility and a \$275 million production facility. Available borrowings are limited by a borrowing base, established annually based on the value of petroleum and natural gas assets as determined by the lender. The borrowing base effective January 1999 is \$260 million. The loan is reviewed annually and may be converted to a term loan repayable over five years in equal semi-annual installments. At December 31, 1998, \$224.5 million was drawn under this facility.

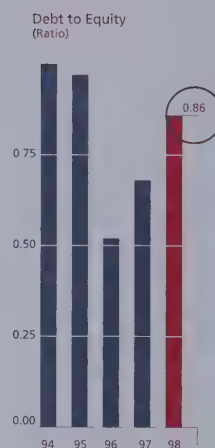
Working capital liquidity is maintained by drawing from and repaying the unutilized credit facilities as needed. At December 31, 1998, Paramount had a working capital deficiency of \$2.3 million, a direct result of the Company's extensive winter drilling program, the majority of which is operated by the Company.

A key component of Paramount's capitalization is debt funding. Properly managed, debt funding enhances growth and profitability to shareholders without dilution or unnecessary risk. Historically, Paramount has utilized bank debt primarily for new plant development capital expenditures. As a result, the Company has maintained a weighted average net debt to cash flow ratio less than 2:1 over the past five years. The Company plans to continue utilizing debt financing and believes that a net debt to cash flow ratio of 2:1 is prudent in conjunction with other risk management strategies employed. As at December 31, 1998, approximately \$61.5 million, or 27 percent of the \$228.8 million net debt outstanding, was subject to fixed interest rate agreements. The remaining debt was subject to floating interest rates applicable to financial instruments known as bankers' acceptances that generally provide for a lower rate of interest than the alternative bank prime rate cost of borrowing.

Also of significant importance to the Company is the U.S./Cdn.\$ exchange ratio since virtually all of the natural gas sales and crude oil sales of the Company are made into and priced effectively on U.S. markets. Any improvement in the Canadian dollar relative to its U.S. counterpart will have an impact on the wellhead price received for our production. To manage this risk, Paramount has entered into currency swap agreements that have fixed the exchange rates on U.S. \$68.3 million of future production revenue over the next six years at Cdn. \$96.4 million. In addition the Company has a U.S. \$20 million bank loan and as such this is also designated as a currency hedge.

Paramount's 1999 capital expenditure program will be financed with internally generated cash flow, minor property dispositions, and where necessary, additional bank borrowings.

At December 31, 1998, the Company's issued share capital consisted of 56,953,600 common shares.

**RISKS AND UNCERTAINTIES**

Companies involved in the exploration for and production of oil and natural gas face a number of risks and uncertainties inherent in the industry. The Company's performance is influenced by commodity pricing, transportation and marketing constraints and government regulation and taxation.

Natural gas prices are influenced by the North American supply and demand balance as well as transportation capacity constraints. Seasonal changes in demand, which are largely influenced by

weather patterns, also affect the price of natural gas. Stability in natural gas pricing is available through the use of short and long-term contract arrangements. Paramount utilizes a combination of these types of contracts as well as spot markets in its natural gas pricing strategy.

Oil prices are influenced by global supply and demand conditions as well as world wide political events. As the price of oil in Canada is based on a U.S. benchmark price, variations in the Canada/U.S. exchange rate further affect Paramount's oil price.

The Company's access to oil and natural gas sales markets is restricted, at times, by pipeline capacity. In addition, it is also affected by the proximity of pipelines and availability of processing equipment. Paramount controls as much of its marketing and transportation activities as possible in order to minimize any negative impact of these external factors.

The oil and gas industry is subject to extensive controls, regulatory policies and income taxes imposed by the various levels of government. These controls and policies, as well as income tax laws and regulations, are amended from time to time. The Company has no control over government intervention or taxation levels in the oil and gas industry; however, it operates in a manner to ensure that it is in compliance with all regulations and is able to respond to changes as they occur.

Paramount's operations are subject to the risks normally associated with the oil and gas industry including hazards such as unusual or unexpected geological formations, high reservoir pressures and other conditions involved in drilling and operating wells. The Company minimizes these risks using prudent safety programs and risk management, including insurance coverage against potential losses.

The Company recognizes that the industry is faced with an increasing awareness with respect to the environmental impact of oil and gas operations. Paramount has reviewed the environmental risks to which it is exposed and has determined that there is no current material impact on the Company's operations; however, the cost of complying with environmental regulations is increasing. Paramount will ensure continued compliance with environmental legislation.

Paramount is of the view that inflation will not be a significant factor in its 1999 business environment.

YEAR 2000 COMPUTER ISSUE

The "Year 2000 Issue" is a general term used to refer to certain business implications that may arise on the arrival of the new millennium. In simple terms, these implications arise largely because it has been normal practice for computer hardware and software to use only two digits rather than four to record the year in date fields. On January 1, 2000, when the year is designated as "00", many computer systems could either fail completely or create erroneous data as a result of misinterpretation of the year. In some cases, date sensitive systems may begin to fail prior to January 1, 2000. The results of failures may range from relatively minor processing inaccuracies to catastrophic system malfunctions. Failures may affect not only hardware and software used to process everyday business information for the Company, but also any embedded data chips in computers that control our processing plant machinery, robotics, office equipment, elevators and building climate and security systems in general. Many of our major equipment suppliers, service contractors, pipeline transportation systems and lenders may be affected to varying degrees as well.

During 1998 Paramount established a special project team to evaluate the extent of potential problems related to Year 2000 and to report to senior management and the Board of Directors the impact of this concern on both Paramount's internal business processes and external business relationships and dependencies. The project team, along with outside specialized consultants, compiled a detailed inventory, identifying operating and information systems and equipment used by Paramount which may pose potential problems. All systems and equipment were assessed in

detail in conjunction with the appropriate suppliers to determine the magnitude of Paramount's exposure to any deficiencies. The project team has identified all requirements, resources, timelines and remedial action plans necessary for the successful resolution of the concerns identified.

At the present time the Company is in the process of converting the financial accounting, production accounting and land systems to software which is Year 2000 compliant. Paramount expects completion and testing by the end of the first quarter of 1999.

To date, hardware and software inventory audits have confirmed that the Company is approximately 90 percent compliant at our field locations. Work is continuing to upgrade software and systems where necessary to ensure timely completion. Although the Company is confident that our internal systems will be fully compliant, Paramount is in the process of developing contingency plans in the event problems occur. Such plans will be developed through the second quarter of 1999.

Costs associated with Paramount's Year 2000 solution are expected to approximate \$800,000, which costs have been or will be capitalized as incurred.

The Year 2000 issue certainly gives rise to uncertainties that are potentially very significant for the Company. The petroleum industry is highly dependent on information technology for all its primary and secondary business functions. Paramount is not anticipating any disruption of business as a result of the year 2000.

Paramount will continue to report on this matter on an ongoing basis in our quarterly reports to shareholders as well as directors and all other important stakeholders.

KYOTO PROTOCOL ON GREENHOUSE GAS EMISSIONS

Canada is signatory to an International Treaty to achieve a 6 percent reduction from 1990 greenhouse gas emission levels by 2008-2012, which represents approximately a 25 percent cut from current levels. At this time the Company does not know what final course of action the Canadian or United States governments will take in this regard and accordingly cannot measure the potential risk to our business.

1999 CASH FLOW FORECAST AND SENSITIVITY ANALYSIS

The Company's earnings and cash flow are highly sensitive to changes in commodity prices, exchange rates and other factors which are beyond the control of the Company. The following analysis assesses the magnitude of these sensitivities on the Company's 1999 cash flow using the following base assumptions.

a) 1999 production	
Natural gas	270 MMcf/d
Crude oil/liquids	3,000 Bbl/d
b) 1999 average prices	
Natural gas	\$2.25/Mcf
Crude oil/liquids (WTI)	U.S. \$13.00/Bbl
c) Cash flow (after tax)	\$145 million
d) 1999 capital budget (net of disposition proceeds)	\$145 million

The estimated pre-tax impact on cash flow is summarized in the following table.

Sensitivity (\$ millions)	Cash Flow
Gas sales change of 10 MMcf/d	\$7.0
Gas price change of \$0.10/Mcf	\$8.3
Oil and liquids sales of 100 Bbl/d	\$0.6
Oil and liquids price change of \$1.00/Bbl	\$0.9
Sensitivity to foreign exchange change \$0.01 Cdn.	\$1.0
Interest rates change 1%	\$2.3

AUDITORS' REPORT**TO THE SHAREHOLDERS OF PARAMOUNT RESOURCES LTD.**

We have audited the consolidated balance sheets of Paramount Resources Ltd. as at December 31, 1998 and 1997, and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and 1997, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

March 11, 1999
Calgary, Canada

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of Paramount Resources Ltd. and all the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the consolidated financial statements.

Management maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Audit Committee of the Board of Directors is comprised of non-management directors. The Committee meets periodically with management as well as the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibility, and to review the Annual Report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Ernst & Young LLP have full and free access to the Audit Committee and Management.



Clayton H. Riddell
President and Chairman of the Board
March 11, 1999



David J. Broshko, C.A.
Chief Financial Officer

CONSOLIDATED BALANCE SHEETS

As at December 31	1998	1997
(thousands of dollars)		
ASSETS		
Current Assets		
Cash	\$ 81	\$ 165
Accounts receivable	44,580	49,448
Inventory (note 2)	10,301	10,070
Prepaid expenses	5,055	2,981
	60,017	62,664
Petroleum and natural gas properties (note 3)	561,549	404,046
Other assets (note 5)	2,629	3,244
	\$ 624,195	\$ 469,954
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 62,363	\$ 60,533
Bank loans (note 6)	224,476	139,518
Other indebtedness (note 4)	1,963	—
Provision for future site restoration and abandonment costs	3,675	2,765
Deferred revenue	5,166	6,274
Deferred income taxes	63,620	57,098
	361,263	266,188
Commitment and Contingency (notes 4 and 10)		
Shareholders' Equity		
Share capital (note 7)		
Issued and outstanding		
56,953,600 common shares	158,970	115,166
(1997 – 53,953,600 common shares)		
Retained earnings	103,962	88,600
	262,932	203,766
	\$ 624,195	\$ 469,954

See accompanying notes.

On Behalf of the Board



Director



Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Years ended December 31	1998	1997
(thousands of dollars except for per share amounts)		
Revenue		
Petroleum and natural gas sales	\$ 163,956	\$ 128,493
Royalties	(22,261)	(18,750)
Alberta Royalty Tax Credit	1,387	1,210
Other income	1,571	1,967
	144,653	112,920
Expenses		
Operating	33,005	22,213
Interest on long-term debt	12,745	6,698
General and administrative	4,452	9,405
Dry hole costs	11,667	7,378
Lease rentals	4,185	2,498
Geological and geophysical costs	5,119	1,952
Depletion and depreciation	46,554	33,053
Gain on sales of property and equipment	(3,216)	(12,560)
Provision for future site restoration and abandonment costs	910	713
	115,421	71,350
Income before taxes	29,232	41,570
Income and other taxes (note 8)		
Income taxes – Large Corporations Tax and other	2,109	1,195
– deferred	8,913	16,986
	11,022	18,181
Net earnings	18,210	23,389
Retained earnings, beginning of year	88,600	67,671
Dividends paid	2,848	2,460
Retained earnings, end of year	\$ 103,962	\$ 88,600
Net earnings per share	\$ 0.34	\$ 0.47
Weighted average shares outstanding (thousands)	54,348	49,782

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31	1998	1997
(thousands of dollars except for per share amounts)		
Operating Activities		
Net earnings	\$ 18,210	\$ 23,389
Add (deduct) non-cash items		
Depletion and depreciation	46,554	33,053
Dry hole costs	11,667	7,378
Gain on sales of property and equipment	(3,216)	(12,560)
Provision for future site restoration and abandonment costs	910	713
Deferred income taxes	8,913	16,986
Add items not related to operating activities		
Geological and geophysical costs	5,119	1,952
Cash flow from operations	88,157	70,911
Deferred revenue	(1,108)	(1,226)
Change in non-cash operating working capital	1,098	(4,728)
	88,147	64,957
Financing Activities		
Bank loans	84,958	76,472
Other indebtedness	1,963	–
Issue of common shares, net of related costs	43,804	60,753
Deferred foreign exchange loss increase	(2,366)	(1,198)
Dividends paid	(2,848)	(2,460)
	125,511	133,567
Cash Provided by Operating and Financing Activities	213,658	198,524
Investing Activities		
Property and equipment expenditures	151,842	126,904
Petroleum and natural gas property acquisitions	78,063	77,000
Geological and geophysical costs	5,119	1,952
Acquisition of subsidiary	–	949
Sale of property and equipment	(19,042)	(22,636)
Other	1,055	–
Change in non-cash investing working capital	(3,295)	14,192
	213,742	198,361
Increase (Decrease) in cash	(84)	163
Cash, Beginning of Year	165	2
Cash, End of Year	\$ 81	\$ 165
Cash flow from operations per share	\$ 1.62	\$ 1.42
Weighted average number of shares outstanding (thousands)	54,348	49,782

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Paramount Resources Ltd. (the "Company") is involved in the exploration and development of petroleum and natural gas in Western Canada. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Paramount Resources Ltd., its wholly owned subsidiaries and its proportionate share of the accounts of its 50 percent interest in a private drilling company.

INVESTMENT IN DRILLING COMPANY

The Company has a 50 percent interest in a drilling company jointly controlled with another party. The Company accounts for its interest using proportionate consolidation whereby its prorata share of all assets, liabilities, revenues and expenses are combined on a line-by-line basis with similar items in the Company financial statements.

INVENTORY

Inventory of materials and equipment is carried at the lower of cost, on a first-in first-out basis, and net realizable value.

Natural gas in storage is carried at the lower of cost and net realizable value. Cost includes all amounts incurred to produce the related gas, transport it to the storage facility and the cost of storage.

PETROLEUM AND NATURAL GAS PROPERTIES

The Company follows the Successful Efforts Method of accounting for petroleum and natural gas operations. Under this method the Company capitalizes only those costs that result directly in the discovery of petroleum and natural gas reserves. Exploration expenses, including geological and geophysical costs, lease rentals and exploratory dry hole costs, are charged to earnings as incurred. Leasehold acquisition costs, including costs of drilling and equipping successful wells, are capitalized. The net cost of unproductive wells, abandoned wells and surrendered leases are charged to earnings in the year of abandonment or surrender. Gains or losses are recognized on the disposition of properties and equipment.

Depletion and depreciation of petroleum and gas properties including well development expenditures, production equipment, gas plants and gathering systems are provided on the unit-of-production method based on estimated proven recoverable reserves of each producing property or project. Depreciation of other equipment is provided on a declining balance method at rates varying from 20 to 30 percent.

The net amount at which petroleum and natural gas costs on a property or project are carried is subject to a cost recovery test. The carrying values of capital assets, including the cost of acquiring proven and probable reserves, are subject to uncertainty associated with the quantity of oil and gas reserves, future production rates, commodity prices and other factors. Future events could result in material changes to the carrying values recognized in the financial statements.

Certain of the Company's exploration, development and production activities related to petroleum and natural gas are conducted jointly with others. The accounts reflect only the Company's proportionate interest in such activities.

FUTURE SITE RESTORATION AND ABANDONMENT COSTS

Estimated future site restoration and abandonment costs are accrued in the financial statements. This estimate, net of expected recoveries, includes the cost of equipment removal and environmental cleanup based upon regulations and economic circumstances at year end.

DEFERRED COSTS – JEC

Deferred costs in an oil and gas joint exploration corporation (JEC) are being amortized, as the related resource tax deductions are utilized as an offset against the benefits realized.

FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in U.S. dollars are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Other assets and liabilities are translated at the rates prevailing at the respective transaction dates. Revenues and expenses are translated at the average rate prevailing during the year. Translation gains and losses are reflected in income when incurred except for unrealized gains or losses on translation of long-term bank loans which are deferred and amortized on a straight-line basis over the expected minimum repayment period.

FINANCIAL INSTRUMENTS

The Company utilizes financial instruments to manage its exposure to interest rates, foreign currency exchange rates and commodity prices. Gains or losses from foreign exchange and commodity hedge contracts are recognized in the same period as the related production revenue. Amounts received or paid under interest rate swaps are recognized in interest expense as incurred.

FLOW-THROUGH SHARES

In prior years, the Company financed a portion of its petroleum and natural gas exploration activities with a flow-through share issue. Under this type of financing arrangement, shares were issued at a fixed price and the proceeds were used to fund exploration and development activities within a defined time period. The exploration and development expenditures funded by flow-through share expenditures were renounced to investors in accordance with tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are renounced.

2. INVENTORY

Inventory consists of the following:

(\$ thousands)	1998	1997
Materials and equipment	\$ 5,436	\$ 6,564
Natural gas in storage	4,865	3,506
	\$ 10,301	\$ 10,070

3. PETROLEUM AND NATURAL GAS PROPERTIES

(\$ thousands)	1998		1997	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
Petroleum and natural gas properties	\$472,609	\$75,986	\$335,553	\$54,878
Gas plants, gathering systems and production equipment	261,653	100,194	198,869	76,836
Other	6,918	3,451	4,346	3,008
	\$741,180	\$179,631	\$538,768	\$134,722
Net book value	\$561,549		\$404,046	

Capital costs associated with non-producing petroleum and natural gas properties totalling approximately \$252 million (1997 – \$162 million) are excluded from capitalized costs subject to depletion.

4. INVESTMENT IN DRILLING COMPANY

The consolidated financial statements include the Company's proportionate share of the assets and liabilities as follows:

(\$ thousands)	
Assets	
Current assets	\$ 131
Property and equipment	2,608
	\$ 2,739
Liabilities and Equity	
Current liabilities	\$ 55
Bank loan	1,963
Equity	721
	\$ 2,739

The drilling company had a reducing term loan facility in the amount of \$4.1 million outstanding at December 31, 1998. The loan is repayable in equal semi-annual installments of \$500,000 to June 2002. As at December 31, 1998, this facility had an effective interest rate of 6.75 percent. The Company has provided a guarantee as security for the loan. Earnings attributed to drilling services provided to Paramount have been eliminated from the accompanying financial statements with an offsetting amount credited to petroleum and natural gas properties.

5. OTHER ASSETS

(\$ thousands)	1998	1997
Deferred costs – JEC	\$ –	\$ 1,427
Deferred foreign exchange loss	2,629	1,817
	\$ 2,629	\$ 3,244

6. BANK LOANS

The Company has an Extendible Revolving Term Credit Facility ("Credit Facility") with a syndicate of Canadian chartered banks in the amount of \$300 million including a \$25 million working capital facility and a \$275 million production facility. Available borrowings are limited by a borrowing base, established annually based on the value of petroleum and natural gas assets as determined by the lenders. The borrowing base as at January 1999 was \$260 million.

The Credit Facility is reviewed annually by June 30 of each year and may be converted to a term loan repayable over five years in equal semi-annual installments.

As at December 31 the following amounts were drawn under this facility.

(\$ thousands)	1998	1997
Bankers' acceptances – 30 days at an average rate 6.1% (1997 – 5.4%)	\$ 163,000	\$ 80,408
Bankers' acceptances	30,500	30,500
LIBOR advances (U.S. \$20,000,000)	30,976	28,610
	\$ 224,476	\$ 139,518

The Company has provided a first floating charge on all assets in the amount of \$500 million and a general assignment pursuant to a general security agreement.

The Company has an interest rate exchange agreement fixing the interest rate on \$30.5 million of long-term debt at 8.4 percent to August 11, 2000. (Alternative Bankers' Acceptance 30-day floating rate for the Company was 6.1 percent on December 31, 1998.)

The Company has an interest rate exchange agreement on U.S. \$20 million which has a termination date of October 26, 1999, at a fixed rate of 6.5 percent. (Alternative LIBOR 30 day floating rate was 6.1 percent on December 31, 1998.)

The Company has letters of credit totalling \$6.3 million outstanding with a Canadian Chartered Bank.

7. SHARE CAPITAL

AUTHORIZED CAPITAL

The authorized capital of the Company is comprised of an unlimited number of non-voting preferred shares without nominal or par value, issuable in series, and an unlimited number of common shares without nominal or par value.

ISSUED CAPITAL

Common Shares (\$ thousands)	Number	Consideration
Balance December 31, 1996	49,203,600	\$ 53,063
Issued for cash on the exercise of a stock option	750,000	1,344
Issuance of common shares for cash	4,000,000	66,000
Tax benefits relating to qualifying expenditures renounced to flow-through shareholders	—	(3,520)
Share issue costs (net of deferred tax reduction of \$1,351,250)	—	(1,721)
Balance December 31, 1997⁽¹⁾	53,953,600	115,166
Issuance of common shares for cash	3,000,000	45,000
Share issue costs (net of deferred tax reduction of \$963,750)	—	(1,196)
Balance December 31, 1998	56,953,600	\$ 158,970

⁽¹⁾Inclusive of a three-for-one stock split effective June 4, 1997.

8. INCOME TAXES

Petroleum and natural gas interests include approximately \$2.0 million (1997 – \$2.4 million) of unamortized costs which are not deductible for income tax purposes by the Company.

The income tax provision for the years ended December 31, 1998 and 1997, differs from the income taxes obtained by applying the Canadian corporate tax rate to income before taxes as follows:

(\$ thousands)	1998	1997
Corporate tax rate	44.62%	44.62%
Calculated income tax expense	\$ 13,043	\$ 18,549
Increase (decrease) resulting from:		
Non-deductible Crown charges, net of Alberta Royalty Tax Credit	9,851	7,702
Utilization of renounced resource tax expenses net of amortization	(1,887)	(1,887)
Federal resource allowance	(12,934)	(8,458)
Non-deductible depletion	127	1,056
Large Corporation Capital Tax and other	2,109	1,142
Other	713	77
Income tax provision	\$ 11,022	\$ 18,181

9. FINANCIAL INSTRUMENTS

The Company has entered into the following currency index swap transactions, fixing the exchange rate on receipts of U.S. \$68.3 million for Cdn. \$96.4 million over the next six years at Cdn. \$1.41. The Canadian dollar/U.S. dollar closing exchange rate was \$1.5488 as at December 31, 1998 (1997 – \$1.4305).

Financial Instruments (\$ thousands)	U.S.\$ Amount	Weighted Average Exchange Rate
1999	\$ 18,350	\$ 1.4017
2000	18,180	\$ 1.4095
2001	17,940	\$ 1.4106
2002	8,920	\$ 1.4241
2003	4,570	\$ 1.4211
2004	360	\$ 1.4206
Total	\$ 68,320	\$ 1.4104

During 1998, \$0.1 million of net losses related to hedging contracts (1997 – \$1.2 million net gains) are included in natural gas sales revenue.

Borrowings under bank credit facilities and the issuance of commercial paper are for short periods and are market rate based; thus, carrying values approximate fair value. Fair values for derivative instruments are determined based on the estimated cash payment or receipt necessary to settle the contract at December 31. Cash payments or receipts are based on discounted cash flow analysis using current market rates and prices.

The fair values of other financial instruments, including cash, accounts receivable, and accounts payable and accrued liabilities, approximate their carrying values.

10. YEAR 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using Year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. Management has developed and is implementing a plan designed to identify and address the expected effects of the Year 2000 Issue on the Company. As at December 31, 1998, the Company has commenced the identification of computer systems that will require modification or replacement. An assessment of the readiness of third parties such as customers, suppliers and others is ongoing. However, it is not possible to be certain that all aspects of the Year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current financial statement presentation.

ANNUAL INFORMATION FORM**INCORPORATION**

Paramount Resources Ltd. ("Paramount" or the "Company") was incorporated under the laws of the Province of Alberta on February 14, 1978. The Company commenced operations as a public company listed on the Alberta Stock Exchange on December 18, 1978, with a successful Initial Public Offering that raised \$4.7 million and a share exchange with a private company, Paramount Oil & Gas Ltd., for certain crude oil and natural gas assets with book value of \$341,000.

On November 30, 1984, Paramount was listed on The Toronto Stock Exchange (TSE). Paramount was added to the TSE 300 Composite Index (Subgroup 3.2 Oil & Gas Producers) and the TSE 200 Index, effective January 16, 1998.

The head and principal office of the Company is located at Suite 4000 First Canadian Centre, 350 Seventh Avenue S.W., Calgary, Alberta T2P 3W5.

MANAGEMENT OF THE COMPANY

The management of the Company is provided by six officers, one of whom currently also serves as a director. There are eight non-management directors to complete the Board of Directors. The names, municipality of residence, position with Paramount and principal occupation of each of the officers and directors can be found in the Management Information and Proxy Circular dated March 15, 1999.

The term of office for each director of the Company is from the date of the annual meeting at which they are elected or appointed until the annual meeting next following or until a successor is elected or appointed. The current Board of Directors was nominated and elected at the Annual Meeting of the Shareholders held on May 14, 1998, except for Mr. David M. Knott who was appointed to the Board of Directors at a Directors' Meeting held on November 12, 1998. The Board of Directors has an Audit Committee which consists of Messrs. Padley, Roy and MacInnes; a Compensation Committee which consists of Messrs. Riddell, Roy and Wylie; and an Environmental Committee which consists of Messrs. MacInnes, Roy and Wylie.

As at December 31, 1998, the directors and officers of the Company as a group beneficially owned 31,061,028 common shares, representing 54.54 percent of the 56,953,600 issued and outstanding common shares of Paramount Resources Ltd.

The 1999 Annual General Meeting will be held on May 20 in Calgary.

DESCRIPTION AND DEVELOPMENT OF BUSINESS

Paramount Resources Ltd. is a Canadian natural resource company involved in the exploration, development and production of petroleum and natural gas, primarily in Alberta but also in British Columbia, Saskatchewan and the Northwest Territories, and most recently California. Exploration efforts have historically been concentrated on shallow gas prospects in northeast Alberta. Currently, sales of natural gas account for approximately 90 percent of the Company's total production.

The Company's ongoing exploration, development and production activities are designed to establish new reserves of oil and natural gas and increase the productive capacity of existing fields. In order to optimize its net capacity and control costs, the Company strives to: increase ownership and throughput in existing plants as economic opportunities arise; occasionally dispose of lower working interest properties; maintain a high working interest in low to medium risk projects; and enter into joint venture arrangements on select high risk/high return exploration prospects.

Paramount also participates in the petroleum and natural gas industry through acquisition of petroleum and natural gas assets. The Company's acquisition strategy focuses on long-term asset value including assets which will increase Paramount's current working interest in existing properties. To take advantage of opportunities as they arise, the Company maintains a strong balance sheet which allows such acquisitions to be financed.

At December 31, 1998, approximately 77 percent of Paramount's proven and probable natural gas reserves were located in Alberta, with the balance in British Columbia, Saskatchewan and the Northwest Territories. Oil and natural gas liquids reserves are 43 percent located in Alberta, 47 percent in

Saskatchewan, with the remainder in British Columbia and the Northwest Territories. Paramount operates approximately 80 percent of its current natural gas production and approximately 45 percent of its current oil production.

In addition to the historical focus on shallow gas in northeastern Alberta, Paramount is continuing to actively explore for petroleum and natural gas reserves in central Alberta, northwest British Columbia, southeast Saskatchewan, Northwest Territories, southern Alberta Foothills, and California. In 1996 the Company established its first natural gas and crude oil production from British Columbia. Efforts are continuing in the Northwest Territories where eight wells were drilled during the 1998/99 drilling season. The development of new core areas ensures adequate supply for existing gas markets and contracts, and is accelerated when markets are sufficient to support additional supply.

CAPITAL TRANSACTIONS

Since inception, the Company has raised share capital in public markets on only three occasions. In addition, the shares of Paramount have split twice on a three-for-one basis. As at December 31, 1998, the Company had 56,953,600 shares outstanding with an indicated market capitalization of \$854.3 million based upon the \$15.00 per share closing price on the TSE. Following is a summary of capital transactions the Company has completed in the past five years.

On November 13, 1998, Paramount issued 3.0 million common shares at a price of \$15.00 per share for gross proceeds of \$45.0 million pursuant to a prospectus dated November 4, 1998. Proceeds were initially used to reduce bank indebtedness.

On November 4, 1997, Paramount issued 4.0 million common shares at \$16.50 per share pursuant to a prospectus dated November 4, 1997.

On June 4, 1997, Paramount's common shares were split on a three-for-one basis resulting in 49,203,600 issued and outstanding common shares.

On September 10, 1993, Paramount issued 3.75 million common shares at a price of \$7.58 per share for net proceeds of \$27.1 million.

COMPETITIVE CONDITIONS

The petroleum and natural gas industry is highly competitive. Paramount competes with numerous other participants in the search for and acquisition of crude oil and natural gas properties and in the marketing of these commodities. Successful reserve replacement in the future will depend not only on the further development of present properties, but also on the ability to select and acquire suitable prospects for exploratory drilling.

Paramount has firm service for most of its natural gas production as opposed to interruptible allocations on pipeline systems. The Company closely monitors the daily production from all of its plants ensuring that contractual obligations will be met. The operational policy of producing excess gas into storage to maintain production, even when markets may not be available, ensures the reliability of the supply of natural gas during peak demand periods and reduces unit operating costs. Balancing contractual commitments, natural gas sales are directed to those markets where the Company believes prices will be best. Currently, approximately 70 percent of the Company's gas production is exported to the United States.

RECENT DEVELOPMENTS

As a result of the 1997 inquiry pertaining to the production of natural gas in association with bitumen, the Alberta Energy and Utilities Board ("EUB") on February 3, 1999 issued Interim Directive 99-1 entitled "Gas/Bitumen Production in Oil Sands Areas, Exploration, Notification and Drilling Requirements." This directive specifies that, for all wells completed in defined oil sands strata prior to July 1, 1998, an application for approval to produce gas will not be required. These wells will be allowed to continue to produce, subject to the resolution of any concerns that may be raised by oil sands lease holders, or by the EUB on its own initiative. As well, Interim Directive 99-1 specifies that,

for all wells drilled and/or completed in defined oil sands strata after July 1, 1998, an operator must submit an application to obtain approval from the EUB before any gas can be produced. Also, all wells drilled in the oil sands strata after July 1, 1998, must be drilled to the base of the oil sands zone. Notification of applications for approval to produce gas and for insitu oil sands schemes is to be given by the applicants to potentially affected parties.

Gulf Canada Resources Ltd. has applied to the EUB to have Wabiskaw/McMurray gas production in the Surmont area shut in, and beginning April 20, 1999, the EUB will hold a hearing in response to that application. Paramount has significant production in the Surmont area and will be an active participant in the hearing process through the Surmont Gas Producers Group. Paramount believes that the case being made by the Surmont Gas Producers Group is strong and should influence the EUB to decline any concessions requested in Gulf's application.

ENVIRONMENTAL PROTECTION

Paramount has in place an Environmental Committee of the Board of Directors comprised of three non-management directors of the Company. The tenet of the Company's environmental policy is as follows:

Paramount Resources Ltd. "Paramount" is committed to protecting the environment, to maintaining public health and safety, and to compliance with all applicable environmental laws, regulations and standards. Paramount will do all that it reasonably can to ensure that sound environmental practices are followed in all of its operations and activities.

The Committee is guided by a specific set of principles to ensure that this policy is supported. These principles apply to all employees of Paramount and are designed to make certain that all applicable environmental laws, regulations and standards are complied with. The Company monitors all activities and makes reasonable efforts to ensure that companies who provide services to Paramount will operate in a manner consistent with its environmental policy.

HUMAN RESOURCES

At January 1, 1999, Paramount had 63 full time head office employees and 65 full time employees at field locations. The Company's compensation of full time employees includes a combination of salary, benefits, participation in either a share appreciation rights plan or a company-assisted share purchase savings plan. Shares under the savings plan are purchased in the market by the plan trustee.

LAND

The following table sets forth Paramount's land position at December 31, 1998. The Company's holdings total 4,030,000 gross (2,432,809 net) acres. Approximately 66 percent of the Company's gross land holdings are considered undeveloped.

	1998		1997		1996		1995		1994	
(thousands of acres)	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Undeveloped Land										
Alberta	1,789	1,178	1,505	920	1,175	786	1,151	704	1,175	697
British Columbia	138	73	99	44	64	36	48	33	43	34
Saskatchewan	238	44	438	145	100	17	2	1	—	—
Northwest Territories	509	220	309	114	240	93	123	105	123	106
Subtotal	2,674	1,515	2,351	1,223	1,579	932	1,324	843	1,341	837
Acreage assigned reserves										
Alberta	1,280	866	1,091	739	653	485	963	579	905	564
British Columbia	16	9	16	8	4	2	5	3	2	1
Saskatchewan	15	40	51	22	2	1	1	—	3	1
Northwest Territories	45	3	46	40	50	44	50	44	50	44
Subtotal	1,356	918	1,204	809	709	532	1,019	626	960	610
Total Acres	4,030	2,433	3,555	2,032	2,288	1,464	2,343	1,469	2,301	1,447

"Gross" acres means the total acreage in which Paramount has a working interest and "net" acres means the number of acres obtained by multiplying the gross acres by Paramount's working interest therein.

DRILLING HISTORY

The following table summaries the results of Paramount's drilling activity for each of the last five fiscal years. The working interest in certain of these wells may change after payout.

	1998		1997		1996		1995		1994	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Development Wells										
Gas	50	36.3	58	43.8	49	20.3	67	31.1	66	38.0
Oil	10	3.9	11	2.2	14	3.6	4	4.0	5	4.8
Standing/service	5	3.8	20	7.1	1	0.5	—	—	—	—
Dry	4	3.5	4	3.0	3	2.0	5	2.4	5	3.1
Subtotal	69	47.5	93	56.1	67	26.4	76	37.5	76	45.9
Exploration Wells										
Gas	59	38.1	23	10.1	28	15.7	34	17.0	15	12.7
Oil	13	2.9	17	3.2	3	0.9	3	2.2	2	2.0
Oil/Gas	—	—	—	—	—	—	—	—	1	1.0
Standing/service	6	3.6	8	2.5	2	0.5	—	—	—	—
Dry	25	11.8	6	1.5	7	1.5	3	2.0	5	4.0
Subtotal	103	56.4	54	17.3	40	18.6	40	21.2	23	19.7
Total Wells	172	103.9	147	73.4	107	45.0	116	58.7	99	65.6

"Gross" wells means the number of wells in which Paramount has a working interest, and "net" wells means the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage working interest therein.

"Exploratory" well is a well drilled either in search of a new and as yet undiscovered pool of petroleum or natural gas or with the expectation of significantly extending the limit of a pool which is partly discovered.

"Development" well is a well drilled within or in close proximity to a discovered pool of petroleum or natural gas.

OIL AND NATURAL GAS WELLS

As at December 31, 1998, Paramount had an interest in 1,495 gross (1,004.5 net) producing and non-producing oil and natural gas wells as follows:

As at December 31, 1998	PRODUCING		NON-PRODUCING	
	Gross	Net	Gross	Net
Crude oil wells				
Alberta	36	16.1	30	15.5
British Columbia	3	1.8	1	0.6
Saskatchewan	64	13.7	15	2.8
Northwest Territories	—	—	10	8.7
Subtotal	103	31.6	56	27.6
Natural gas wells				
Alberta	738	519.5	558	402.8
British Columbia	9	5.4	10	5.5
Saskatchewan	3	0.8	3	0.7
Northwest Territories	—	—	15	10.6
Subtotal	750	525.7	586	419.6
TOTAL	853	557.3	642	447.2

"Non-producing" wells are wells which Paramount considers capable of production but which, for a variety of reasons including but not limited to a lack of markets and lack of development, cannot be placed on production at the present time.

"Gross" wells means the number of wells in which Paramount has a working interest, and "net" wells means the aggregate number of wells obtained by multiplying each gross well by Paramount's percentage working interest therein.

RESERVES

Paramount's assigned reserves of crude oil, natural gas liquids, and natural gas are located in Canada. For 1998, all reserves except for those in the Midale area were determined through independent engineering evaluations completed by McDaniel & Associates Consultants Ltd. ("McDaniel"), a firm of independent petroleum consultants. Their report was prepared effective January 1, 1999 and dated March 10, 1999. Reserves in the Midale area were evaluated by Gilbert Laustsen Jung Associates Ltd. of Calgary, Alberta. The Company's five-year summary of reserves is outlined in the following tables. Probable reserves reported in the tables below have been arbitrarily reduced by 50 percent to account for risk.

Natural gas reserves (Bcf)	1998	1997	1996	1995	1994
Gross before royalties					
Proven producing	412.8	357.0	190.6	195.9	211.1
Proven non-producing	194.5	124.7	155.2	149.4	122.5
Total proven	607.3	481.7	345.8	345.3	333.6
Probable additional	180.9	155.1	130.6	103.0	101.6
Total proven and probable	788.2	636.8	476.4	448.3	435.2
50% reduction for risked probable reserves	(90.5)	(77.6)	(65.3)	(51.5)	(50.8)
Total risked reserves	697.7	559.2	411.1	396.8	384.4
Net after royalties					
Proven producing	318.8	283.3	147.6	149.2	159.2
Proven non-producing	173.4	111.9	134.4	128.9	108.5
Total proven	492.2	395.2	282.0	278.1	267.7
Probable additional	150.3	127.2	106.4	85.2	83.9
Total proven and probable	642.5	522.4	388.4	363.3	351.6
50% reduction for risked probable reserves	(75.2)	(63.6)	(53.2)	(42.6)	(41.9)
Total risked reserves	567.3	458.8	335.2	320.7	309.7
Crude oil & liquids reserves (MBbl)					
Gross before royalties					
Proven producing	5,018.0	4,912.0	5,089.8	2,895.6	887.9
Proven non-producing	2,877.0	3,474.0	484.3	199.1	189.6
Total proven	7,895.0	8,386.0	5,574.1	3,094.7	1,077.5
Probable additional	3,735.0	5,053.9	5,088.0	3,490.0	1,086.5
Total proven and probable	11,630.0	13,439.9	10,662.1	6,584.7	2,164.0
50% reduction for risked probable reserves	(1,867.5)	(2,527.0)	(2,544.0)	(1,745.0)	(543.2)
Total risked reserves	9,762.5	10,912.9	8,118.1	4,839.7	1,620.8
Net after royalties					
Proven producing	4,102.0	3,785.0	3,991.1	2,295.0	678.8
Proven non-producing	2,109.0	2,566.2	348.8	142.3	161.1
Total proven	6,211.0	6,351.2	4,339.9	2,437.3	839.9
Probable additional	3,053.0	3,858.5	4,022.1	2,923.5	1,008.7
Total proven and probable	9,264.0	10,209.7	8,362.0	5,360.8	1,848.6
50% reduction for risked probable reserves	(1,526.5)	(1,929.3)	(2,011.0)	(1,461.7)	(504.3)
Total risked reserves	7,737.5	8,280.4	6,351.0	3,899.1	1,344.3

RESERVE RECONCILIATION

The table below sets forth Paramount's reconciliation of gross proven and probable reserves from January 1, 1998 to January 1, 1999, using escalated prices and costs. The probable reserves have been arbitrarily reduced by 50 percent to account for risk.

Natural Gas Reserves (Bcf)	Proven	Probable	Total
Risk discounted balance at January 1, 1998	481.7	77.5	559.2
Revisions of previous estimates	71.6	(0.6)	71.0
Extensions and discoveries	79.2	20.9	100.1
Acquisitions of gas in place	59.4	5.5	64.9
Dispositions of gas in place	(16.9)	—	(16.9)
Production	(67.7)	—	(67.7)
50% reduction for risked probable reserves	—	(12.8)	(12.8)
Risk discounted balance at January 1, 1999	607.3	90.5	697.8

Crude oil and liquids (MBbl)	Proven	Probable	Total
Risk discounted balance at January 1, 1998	8,386.0	2,526.9	10,912.9
Revisions of previous estimates	(280.9)	(1,389.8)	(1,670.7)
Extensions and discoveries	480.3	71.0	551.3
Acquisitions of crude oil/liquids in place	56.0	—	56.0
Dispositions of crude oil/liquids in place	—	—	—
Production	(746.4)	—	(746.4)
50% reduction for risked probable reserves	—	659.4	659.4
Risk discounted balance at January 1, 1999	7,895.0	1,867.5	9,762.5

The following table sets forth Paramount's reconciliation of gross natural gas reserves for each of the past five years.

Natural Gas Reserves (Bcf)	1998	1997	1996	1995	1994
Opening balance	559.2	411.1	396.8	384.4	368.9
Revisions of previous estimates	71.0	45.2	13.9	15.5	9.8
Extensions and discoveries	100.1	31.3	56.0	42.3	40.6
Acquisitions of gas in place	64.9	150.5	76.8	15.9	17.8
Dispositions of gas in place	(16.9)	(19.6)	(71.9)	(12.6)	(7.6)
Production	(67.7)	(47.0)	(46.7)	(48.0)	(40.0)
50% reduction for risked probable reserves	(12.8)	(12.3)	(13.8)	(0.7)	(5.1)
Closing balance	697.8	559.2	411.1	396.8	384.4

The following definitions form the basis of classification for reserves presented in the McDaniel report.

1. "Proven Reserves" are defined as those quantities of crude oil, natural gas and natural gas byproducts which, upon analysis of drilling, geological and engineering data, appear with a high degree of certainty to be recoverable at commercial rates in the future from known oil and gas reservoirs under current technology and existing economic conditions. There is relatively little risk associated with these reserves.

Proven developed reserves are subdivided into the following groups, depending on their status of development. These are proven reserves which can be expected to be recovered through existing wells with existing equipment and operating methods.

i) Proven Developed Producing Reserves

These are proven developed reserves which are presently being produced, or if not producing, that could be recovered from existing wells or facilities and where the reason for the current non-producing status is the choice of the owner.

ii) Proven Developed Non-Producing Reserves

These are proven developed reserves which are currently not being produced but do exist in completed intervals from existing wells that require relatively minor capital expenditures to produce. These reserves are classified as proven developed since the cost of making such reserves available for production is relatively small compared to the cost of a new well.

2. "Probable Reserves" are those reserves which analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proven under current technology and existing economic conditions, but where such analysis suggests the likelihood of their existence and future recovery. Probable reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proven category which can be realistically estimated for the pool on the basis of enhanced recovery processes which can be reasonably expected to be instituted in the future. The risk associated with these reserves generally ranges from 25 to 75 percent.

3. "Gross Reserves" are defined as the reserves owned by the Company before deduction of any royalties.

4. "Net Reserves" are defined as the gross reserves of the properties in which an interest is held, less all royalties and interests owned by others.

The McDaniel report has relied on representations by Paramount with respect to its ownership and production which representations were accepted by McDaniel without independent verification.

MAJOR PRODUCING PROPERTIES

The following table summarizes average production volumes from Paramount's major producing properties, for each of the last five fiscal years.

MAJOR PRODUCING PROPERTIES

Natural Gas (MMcf/d)	1998	1997	1996	1995	1994
Bistcho Lake	8.0	6.6	—	—	—
Chard	4.2	3.6	4.8	5.5	5.6
Clyde	2.5	1.1	—	—	—
Cold Lake	13.3	—	—	—	—
Corner	25.2	24.1	20.0	19.1	6.2
Kaybob	6.5	8.3	11.3	13.8	8.7
Kaybob North	13.2	7.3	3.3	—	—
Kettle River	24.8	21.2	15.6	16.7	17.0
Legend	14.6	9.7	11.8	12.9	12.5
Leismer	3.1	3.7	1.5	1.9	0.4
North Liege	6.3	8.3	11.0	13.7	15.4
Quigley	11.6	6.8	6.5	7.1	8.0
Saleski	6.7	7.4	9.0	9.2	8.7
South Leismer	4.8	5.2	3.8	2.0	—
South Liege	9.3	1.1	—	2.4	3.0
Teepee Creek	10.7	6.8	—	—	—
Thornbury	6.8	—	—	—	—
Winefred	6.5	—	—	—	—
Zaremba	7.4	3.1	—	—	—
Other	18.0	24.3	28.5	30.7	30.6
Total	203.5	148.6	127.1	135.0	116.1
Crude Oil and Liquids (Bbl/d)					
Alberta	1,021	711	1,120	807	313
Saskatchewan	790	616	332	—	—
Other	177	65	65	—	—
Total	1,988	1,392	1,517	807	313

The following is a summary of Paramount's major producing properties at December 31, 1998. The majority of these properties are in northeastern Alberta and produce natural gas from the shallow, high deliverability natural gas reserves whose discovery and development has been the focus of the Company's corporate strategy since its inception in 1978. Production from this traditional area accounted for 73 percent of the Company's total natural gas production.

Natural gas production from the Company's core area in central Alberta accounted for 13 percent of the total production in 1998, with 5 percent from northwestern Alberta and 3 percent from the Company's new facility in northeastern British Columbia. The remaining 6 percent is from non-operated production in non-core areas.

Paramount's crude oil production is mainly from the Company's non-operated battery at Midale in Saskatchewan, and operated production in central Alberta from Kaybob. Both these properties are described herein.

Paramount's working interests have been determined before royalties and after deduction of any third party carried interests. Net production refers to Paramount's working interest after the deduction of royalties. Plant capacity is determined by the maximum throughput for a given month during 1998.

BISTCHO LAKE, ALBERTA

Bistcho Lake is located in northwestern Alberta, approximately 60 km north of the Zama Lake pipeline terminal. This Company-operated sour gas processing facility had a 1998 maximum capacity of 32.9 MMcf/d transported with 55 kilometers of gathering. Paramount has a 40.75 percent working interest in this project. At year end 1998, the Company had an interest in 370,750 (148,078 net) acres of land consisting of 19 (7.7 net) producing wells, 3 (1.2 net) service wells for acid gas injection and water disposal, and 17 (6.9 net) non-producing wells. The Company's share of production from this area averaged 8.2 MMcf/d (7.8 MMcf/d net of royalties) in 1998.

CHARD, ALBERTA

At Chard, Paramount has an interest in 25,156 (21,276 net) acres of land including 16 (11.4 net) producing natural gas wells tied in to a facility with a capacity of 5.3 MMcf/d. There are 11 (9.8 net) non-producing wells and 43.4 miles of gathering system. The Company also owns an effective 12.0 percent gross overriding royalty on 9 of the 16 producing wells as well as an additional 4.3 percent gross overriding royalty on two producing wells. Production from this area averaged 4.2 MMcf/d (3.3 MMcf/d net of royalties) in 1998.

CLYDE, ALBERTA

Natural gas from this area came onstream in July 1997. Clyde is located in the shallow gas region in northeastern Alberta. There are 6 (3.0 net) producing gas wells gathered to the Clyde plant with 5.4 miles of pipeline and an additional 3 (1.5 net) wells which are capable of production. Maximum capacity at Clyde in 1998 was 5.4 MMcf/d. The acreage totals 24,960 (12,267 net) acres with Paramount owning 50 percent of the project. Production from this area averaged 2.5 MMcf/d (2.1 MMcf/d net of royalties) in 1998.

COLD LAKE, ALBERTA

Natural gas production from this area is processed through a non-operated facility for a custom processing fee. The acreage at Cold Lake totals 117,000 (88,800 net) acres with 90 (72.0 net) producing gas wells and 49 (41.4 net) non-producing wells. Paramount also has a 5 to 6 percent net profit interest in 159 heavy oil wells. Average daily production in 1998 totalled 13.3 MMcf/d (11.1 MMcf/d net of royalties).

CORNER, ALBERTA

At Corner in northeast Alberta, the Company has a 100 percent working interest in 91,160 acres of land with 50 producing and 21 non-producing wells. The company-operated plant had a 1998 capacity of 27.4 MMcf/d. There are 76.0 miles of gathering to this plant. Production from this area averaged 25.2 MMcf/d (21.7 MMcf/d net of royalties) in 1998.

KAYBOB, ALBERTA

Paramount has an interest in 56,800 (48,858 net) acres of land in the Kaybob area of central Alberta. There are 18 (16.1 net) producing wells at Kaybob. The Company has a 91.7 percent working interest in the Paramount operated Kaybob gas plant which has a capacity of 8.0 MMcf/d (7.5 MMcf/d net). There are 40 miles of gathering system and 20 (14.1 net) non-producing wells in this area. Production from this area in 1998 averaged 6.5 MMcf/d (5.5 MMcf/d net of royalties) of natural gas and 67.3 Bbl/d (56.5 Bbl/d net of royalties) of natural gas liquids.

KAYBOB NORTH, ALBERTA

Kaybob North is located in central Alberta. The Company has interests in 78,090 (49,136 net) acres, including 64 (30.1 net) producing wells and 20 (10.7 net) non-producing wells. The natural gas and natural gas liquids are processed at a non-operated plant. Production from this area averaged 13.2 MMcf/d (11.1 MMcf/d net of royalties) of natural gas and 93.2 Bbl/d (78.4 Bbl/d net of royalties) of natural gas liquids in 1998.

KETTLE RIVER, ALBERTA

Paramount has an interest in 35,200 (33,111 net) acres of land at Kettle River with 39 (37.8 net) producing and 13 (11.7 net) non-producing wells. The Company also owns an effective 11.2 percent gross overriding royalty on two of the 29 producing wells. The company-operated gas plant at Kettle has a capacity of 27.0 MMcf/d of which Paramount has a 92.5 percent working interest. There are 54.7 miles of gas pipeline associated with this plant. Production from this area averaged 24.8 MMcf/d (20.8 MMcf/d net of royalties) in 1998.

LEGEND, ALBERTA

Paramount has an interest in 179,440 (157,202 net) acres of land at Legend with 43 (31.9 net) producing natural gas wells and 12 (9.1 net) non-producing wells. Paramount has a 72.8 percent working interest in the company-operated Legend gas plant which has a capacity of 23.4 MMcf/d. There are 70.7 miles of pipeline tied into this facility. The Company also has an effective 1.0 percent gross overriding royalty on 8 wells and an effective 4.4 percent gross overriding royalty on an additional 9 wells. Production from this area averaged 14.6 MMcf/d (12.3 MMcf/d net of royalties) in 1998.

LEISMER, ALBERTA

Paramount has an interest in 44,800 (38,016 net) acres and 12.8 miles of gathering system at Leismer. Plant capacity for 1998 was 7.8 MMcf/d of which Paramount has a 32.5 percent working interest. There are 12 (9.0 net) producing natural gas wells and 13 (10.9 net) non-producing wells at Leismer. Production from this area averaged 3.1 MMcf/d (2.7 MMcf/d net of royalties) in 1998.

NORTH LIEGE, ALBERTA

The Company has an interest in 69,760 (63,335 net) acres of land at North Liege with 18 (17.3 net) producing natural gas wells and 25 (20.3 net) non-producing wells. Paramount has a 94.6 percent working interest in the company-operated plant which has a capacity of 7.2 MMcf/d. There are 29.7 miles of pipeline gathered to this facility. Production from this area averaged 6.3 MMcf/d (5.6 MMcf/d net of royalties) in 1998.

QUIGLEY, ALBERTA

The Company has an interest in 52,480 (50,560 net) acres of land at Quigley with 36 (35.7 net) producing natural gas wells and 20 (20.0 net) non-producing wells. There are 58.8 miles of pipeline gathered to the 16.5 MMcf/d gas plant. Paramount increased its working interest in this plant to 100 percent effective July 1, 1998. Production from this area averaged 11.6 MMcf/d (10.6 MMcf/d net of royalties) in 1998.

SALESKI, ALBERTA

Paramount has a working interest in 88,000 (81,401 net) acres of land with 19 (18.3 net) producing and 8 (7.1 net) non-producing natural gas wells. The Company has an effective 10.7 percent gross overriding royalty on two other wells at Saleski. The Company-operated gas plant at Saleski has a capacity of 7.5 MMcf/d of which Paramount has a working interest of 95.8 percent. There are 35.9 miles of pipeline constructed to this plant. Production from this area averaged 6.7 MMcf/d (5.7 MMcf/d net of royalties) in 1998.

SOUTH LEISMER, ALBERTA

South Leismer is located in the Company's traditional shallow gas area of northeastern Alberta. The Company has an interest in 120,960 (113,695 net) acres at South Leismer with 22 (21.3 net) producing gas wells and 45 (44.2 net) non-producing wells. Maximum capacity at the plant for 1998 was 8.0 MMcf/d of which Paramount has a 100 percent working interest. Production from South Leismer began in June 1995 with 59.8 miles of pipeline supplying gas to the company-operated plant. Production from this area averaged 4.8 MMcf/d (4.5 MMcf/d net of royalties) in 1998.

SOUTH LIEGE, ALBERTA

The Company has an interest in 110,560 (102,062 net) acres in this area. There are 29 (27.4 net) gas wells producing through a 99 percent Company owned and operated plant at Liege with a capacity of 10.3 MMcf/d. There are also 36 (32.8 net) non-producing gas wells on this property. Production from this area averaged 9.3 MMcf/d (7.8 MMcf/d net of royalties) in 1998.

TEEPEE CREEK, ALBERTA

The Teepee Creek area produces shallow gas from the Devonian Wabamum formation along the subcrop edge in northeast Alberta. The non-operated plant, with 25 miles of gathering system, came on production April 1, 1997. The Company has a 37.5 percent working interest in this non-operated gas plant. There are 17 (8.5 net) producing gas wells and 13 (7.0 net) non-producing wells in this area with 140,999 (89,300 net) acres of land. Production from this area averaged 10.7 MMcf/d (9.2 MMcf/d net of royalties) in 1998.

THORNBURY, ALBERTA

Paramount's interest in Thornbury was acquired by way of a property acquisition in October 1997. Gas from this area is custom processed by a midstream processor through an outside-operated gas plant. There are 52 (37.3 net) producing gas wells and 18 (13.3 net) non-producing wells capable of production in the area. The acreage at Thornbury totals 53,120 (36,736 net) acres. Production from this area averaged 6.8 MMcf/d (5.3 MMcf/d net of royalties) in 1998.

WINEFRED, ALBERTA

Paramount's interest in Winefred was acquired in 1997. This property is located on the east side of the northeastern Alberta shallow gas area. Gas from the 47 (39.5 net) producing wells is custom processed through an outside-operated plant. There are 109,480 (80,148 net) acres of land at Winefred and 24 (17.5 net) non-producing wells. Average daily production was 6.5 MMcf/d (5.4 MMcf/d net of royalties) in 1998.

ZAREMBA, BRITISH COLUMBIA

Paramount has an interest in 28,837 (15,378 net) acres in the Zarembo area of British Columbia. This company-operated property has 9 (5.4 net) producing gas wells and 3 (1.8 net) producing oil wells. There are 8 (4.5 net) non-producing gas wells and one (0.6 net) non-producing oil well at Zarembo. The Company's share of production from this area in 1998 totalled 8.7 MMcf/d.

MIDALE, SASKATCHEWAN

The Company has an interest in 48,928 (7,981 net) acres in this non-operated area in southeast Saskatchewan. The area consists of 51 (11.3 net) oil wells producing to non-operated batteries and 11 (2.1 net) non-producing oil wells. Production to Paramount from this area averaged 790 Bbl/d (632 Bbl/d net of royalties) in 1998.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

A) ANNUAL FINANCIAL INFORMATION

(\$ thousands except per share amounts) ⁽¹⁾	Year Ended December 31				
	1998	1997	1996	1995	1994
Revenues	165,527	130,460	100,977	70,428	72,845
Expenses					
Royalties, net of ARTC	20,874	17,540	7,763	7,280	11,635
Operating	33,005	22,213	16,196	14,624	13,658
Interest	12,745	6,698	6,382	7,185	5,873
General and administrative	4,452	9,405	5,972	3,642	4,328
Lease rentals	4,185	2,498	1,955	1,944	1,892
Large Corporation Tax and other	2,109	1,195	602	440	246
Cash flow from operations	88,157	70,911	63,107	35,313	35,213
Per share	1.62	1.42	1.32	0.74	0.74
Depreciation and depletion	46,554	33,053	23,760	24,969	16,225
Dry hole costs	11,667	7,378	2,565	2,150	3,432
Net earnings	18,210	23,389	25,462	5,622	11,504
Per share	0.34	0.47	0.53	0.12	0.24
Balance Sheet Information					
Capital expenditures (gross)	235,024	206,805	90,211	48,880	85,274
Proceeds of property/equipment sales	19,042	22,636	27,084	1,261	31,404
Working capital (deficiency)	(2,346)	2,131	(16,950)	(399)	4,650
Total assets	624,195	469,954	306,463	245,342	256,668
Long-term operating bank debt	226,439	139,518	63,046	86,111	84,563
Shareholders' equity	262,932	203,766	120,734	88,427	84,395
Dividends paid	2,848	2,460	1,590	1,590	1,590
Per share	0.05	0.05	0.033	0.033	0.033
Share information					
Weighted average common shares outstanding (thousands)	54,348	49,782	47,937	47,703	47,460
Market price					
High	17.00	17.75	9.00	5.33	7.83
Low	11.00	7.75	4.33	3.83	4.17

B) ANNUAL OPERATING INFORMATION

Reserves (proven and probable)					
Natural gas (Bcf)	788	637	476	448	435
Crude oil and liquids (MBbl)	11,630	13,440	10,662	6,585	2,164
Land holdings (000's acres)					
Gross	4,030	3,555	2,288	2,343	2,302
Net	2,433	2,032	1,464	1,469	1,447
Production					
Natural gas (MMcf/d)	203.5	148.6	127.1	135.0	116.1
Average natural gas price (\$/Mcf)	2.02	2.12	1.84	1.30	1.66
Crude oil and liquids (Bbl/d)	1,988	1,392	1,517	807	313
Average crude oil price (\$/Bbl)	19.22	26.36	27.91	20.66	16.04
Drilling activity					
Gas wells	111	81	78	101	81
Oil wells	24	28	17	7	8
Standing/service	8	28	—	—	—
Dry and abandoned	29	10	11	8	10
Total	172	147	106	116	99
Success rate (%)	83	93	90	93	90
Number of employees					
Office	63	53	47	48	44
Field	65	46	36	58	56
Total	128	99	83	106	100

⁽¹⁾ All per share amounts are calculated using the weighted average number of shares outstanding, except dividends paid per share which are based upon actual shares outstanding at time of dividend declaration.

C) QUARTERLY FINANCIAL INFORMATION

The following information is presented with respect to each of the last eight fiscal quarters.

(\$ thousands except per share amounts)	1998				1997			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Revenue	45,999	34,402	33,259	30,993	41,886	25,055	21,517	24,462
Earnings	8,962	3,411	3,595	2,242	3,068	11,228	4,146	4,947
Per share	0.17	0.06	0.07	0.04	0.06	0.23	0.08	0.10
Cash flow	29,192	20,029	19,514	19,422	25,314	15,593	13,240	16,764
Per share	0.53	0.37	0.36	0.36	0.49	0.32	0.27	0.34

DIVIDEND POLICY

Paramount has paid a cash dividend each of the last five fiscal years. Although there is no intention to change the policy of paying dividends, future payments will be dependant upon the financial requirements of the Company to reinvest earnings, the financial condition of the Company and other factors which the Board of Directors of the Company may consider appropriate. The following table summarizes the Company's dividend payment record.

	1998	1997	1996	1995	1994
Per share	\$ 0.050	\$ 0.050	\$ 0.033	\$ 0.033	\$ 0.033
Dividends paid (\$ thousands)	\$ 2,848	\$ 2,460	\$ 1,590	\$ 1,590	\$ 1,590

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A" - SEE PAGES 25 TO 33)

See the Company's Management's Discussion and Analysis relating to the audited consolidated financial statements for the fiscal years ended December 31, 1998 and 1997, which form part of this Annual Report.

MARKET FOR SECURITIES

The Common shares of Paramount Resources Ltd. are listed on The Toronto Stock Exchange under the trading symbol 'POU'.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration, principal holders of Paramount Resources Ltd. securities, options to purchase securities, and interests of insiders in material transactions, where applicable, is contained in Paramount's Management Information and Proxy Circular dated March 15, 1999. Additional financial information is contained in the Company's comparative consolidated financial statements for the year ended December 31, 1998.

For additional copies of this Annual Report and the materials listed in the preceding paragraphs, please contact:

DAVID J. BROSHKO, C. A.
Chief Financial Officer

Paramount Resources Ltd.
4000 First Canadian Centre
350 Seventh Avenue S.W.
Calgary, Alberta T2P 3W5
Telephone: (403) 290-3600
Facsimile: (403) 262-7994



SUPPLEMENT TO THE 1998 ANNUAL REPORT

This handbook has been prepared by Paramount Resources Ltd. to address the special information needs of the investment community and the sophisticated investor. The handbook provides detailed performance data and key ratios. For additional information please contact:

C.H. (Clay) Riddell, President

D.J. (David) Broshko, Chief Financial Officer

J.H.T. (Jim) Riddell, Corporate Operating Officer

S.L. (Sue) Riddell Rose, Corporate Operating Officer

Corporate Profile

Paramount Resources Ltd. is a Canadian Energy Company with over 90 percent of its revenue derived from natural gas sales. The Company explores for, develops, produces and markets natural gas, crude oil and natural gas liquids. Since its incorporation on February 14, 1978, the Company has become a major producer of shallow gas in northeastern Alberta. Paramount has an aggressive, focused exploration and development strategy, concentrated on acquiring land and establishing reserves throughout the Western Canadian Sedimentary Basin.

- 20 years old
- 128 employees (63 head office, 65 field)
- Listed on the Toronto Stock Exchange; symbol 'POU'
- Legal for Life
- Listed on TSE 200 Index
- 56.954 million shares outstanding
- Market Capitalization: \$854 million (Dec. 31/98)

Year	Cash Flow	Per Share	Earnings	Per Share
1997	\$ 70.9 million	\$ 1.42	\$ 23.4 million	\$ 0.47
1998	\$ 88.1 million	\$ 1.62	\$ 18.2 million	\$ 0.34
1999Est	\$ 145 million	\$ 2.55	\$ 46.0 million	\$ 0.81

Average number of common shares outstanding for 1998 was 54,348,000.

Stock Split 3:1 Effective June 4, 1997. All 1997 per share data has been restated to give effect to the 3:1 share split.

What is different about Paramount?

- High deliverability, long reserve life shallow gas in northeastern Alberta
- Over 90% of revenue derived from natural gas sales
- "Successful Efforts" accounting policy results in conservative net earnings
- High management ownership (54%)
- Paramount creates its shareholder value with the drill bit

- Proven performance record through 20 years of commodity price cycles
- Exposure to high impact exploration plays in the Liard Basin and Cameron Hills in the N.W.T., the southern Alberta foothills, and the San Joaquin Basin in California.

Consolidated Earnings & Cash Flow Data

(\$ millions except per share amounts)

Years Ended December 31	1998	1997	Change
Revenue			
Natural gas sales	\$149.9	\$115.1	30%
Crude oil & liquid sales	14.0	13.4	4%
Royalties, net of ARTC	(20.9)	(17.5)	19%
Other	1.6	1.9	(16%)
Net Revenue	144.6	112.9	28%

Expenses

Operating	33.0	22.2	57%
Interest	12.7	6.7	89%
General & admin. (G&A)	4.4	9.4	(53%)
Lease rentals	4.2	2.5	68%
Current taxes/LCT	2.1	1.2	75%
Dry hole costs	11.7	7.4	58%
Geological and geophysical	5.1	2.0	155%
Site restoration	0.9	0.7	28%
Dep., depl. & amort.	42.6	33.0	29%
Other (Income) net	(3.2)	(12.6)	(75%)
Deferred taxes	12.9	17.0	(24%)
Net earnings	\$ 18.2	\$ 23.4	(22%)
Net earnings per share	\$ 0.34	\$ 0.47	(28%)

Cash Flow Reconciliation

Oil & gas revenue (net of royalties)	\$144.6	\$112.9	28%
Less expenses			
Operating	33.0	22.2	49%
Interest	12.7	6.7	89%
G & A	4.5	9.4	(53%)
Lease rentals	4.2	2.5	68%
Current & large corp. taxes	2.1	1.2	75%
Cash flow	\$ 88.1	\$ 70.9	24%
Cash flow per share	\$ 1.62	\$ 1.42	14%
Cash flow as a % of net revenue	61%	63%	(3%)

Major Producing Properties		
Natural gas (MMcf/d)	1998	1997
Bistcho Lake	8.0	6.6
Chard	4.2	3.6
Clyde East	2.5	1.1
Cold Lake	13.3	—
Corner	25.2	24.1
Kaybob	6.5	8.3
Kaybob North	13.2	7.3
Kettle River	24.8	21.2
Legend	14.6	9.7
Leismer	3.1	3.7
North Liege	6.3	8.3
Quigley	11.6	6.8
South Leismer	4.8	5.2
South Liege	9.3	1.1
Saleski	6.7	7.4
Teepee Creek	10.7	6.8
Thornbury	6.8	—
Winefred	6.5	—
Zaremba	7.4	3.1
Other	18.0	24.3
Total	203.5	148.6
Crude oil & liquids (Bbl/d)		
Alberta	1,021	711
Saskatchewan	790	616
Other	177	65
Total	1,988	1,392

Gas Sales & Markets (MMcf/d)		
	1998	1997
Pan Alberta	70	49
ProGas	24	14
Canstates/Temco	12	13
Selkirk	16	16
California and Alberta spot	82	57
Total sales	204	149
Aggregators	52%	51%
Direct sales and uncommitted gas supply	48%	49%

1998 Natural Gas Contracts (Bcf)	
	
Alberta Spot	17.9
California Spot	11.6
ProGas	8.8
Selkirk	6.0
Canstates/Temco	4.3
Pan Alberta	25.7
	74.3 Bcf

Appraised Value of Undeveloped Acreage		
(thousand acres)	Gross Acres	Net Acres
Alberta	1,789	1,178
British Columbia	138	73
Saskatchewan	238	44
Northwest Territories	509	220
Total undeveloped acreage	2,674	1,515
Appraised value of undeveloped net acreage	\$63.0 million	

Appraised value is an estimate of the fair market value of acreage based upon current analogous sales. Approximately 62% of the total net 1998 land inventory of 2.4 million acres is undeveloped.

Net Land (thousands acres)		
	1998	1997
Proved	918	809
Undeveloped	1,515	1,223
Total	2,433	2,032

Net Capital Expenditures (\$ millions)		
	1998	1997
Drilling & seismic	\$ 103.2	\$ 52.0
Crown land sales	8.5	9.5
Property acquisition	78.1	77.0
Acquisition of subsidiary/other	3.0	0.9
Plant, gathering & equipment	42.2	67.4
	235.0	206.8
Less proceeds of disposition	19.0	22.6
Net	\$ 216.0	\$ 184.2

Historical Summary					
	1998	1997	1996	1995	1994
Gas production (MMcf/d)	203.5	148.6	127.1	135.0	116.1
Crude oil & liquids production (Bbl/d)	1,988	1,392	1,517	807	313
Gas proven reserves (Bcf)	607.0	481.7	345.8	345.3	333.6
Crude oil & liquids proven reserves (MBbl)	7,895	8,386	5,574	3,095	1,078
Total proven and probable reserves (BCFeq)	904.5	771.2	583.0	514.1	456.8
Net earnings (\$MM)	\$ 18.2	\$ 23.4	\$ 25.5	\$ 5.6	\$ 11.5
Cash flow (\$MM)	\$ 88.1	\$ 70.9	\$ 63.1	\$ 35.3	\$ 35.2
CFPS (\$/share)	\$ 1.62	\$ 1.42	\$ 1.32	\$ 0.74	\$ 0.74

Oil & Gas Sales and Gross Profit

This illustrates oil and gas sales since 1994 and converts the oil sales into gas equivalent (Mcf) on an industry standard basis of one barrel of crude oil/liquids equals 10 Mcf of natural gas.

Fiscal Year ⁽¹⁾	Oil & Gas Revenue		Gas Prod.		Oil & Liquids Prod.		Average Price		Gas Equiv. Prod.	
	(\$ 000s)	Trend	(MMcf)	Trend	(bbls)	Trend	Gas (\$)	Oil (\$)	MMcf	Trend
1994	72,293	100	42,377	100	114,245	100	1.66	16.04	43,520	100
1995	69,887	97	49,275	116	294,650	258	1.30	20.66	52,221	120
1996	100,644	139	46,392	109	553,605	485	1.84	27.91	51,924	119
1997	128,493	178	54,239	128	508,080	445	2.12	26.36	59,320	136
1998	163,956	227	74,278	175	725,620	635	2.02	19.22	81,578	187

⁽¹⁾ Trend with base year 1994, with nominal value of 100

Operating Cash Netbacks

Fiscal Year ⁽¹⁾	Royalties (net ARTC)			Operating Cost			Operating Cash Netback			
	(\$ 000s)	\$/Mcf	Trend	(\$ 000s)	\$/Mcf	Trend	(\$ 000s)	\$/Mcf	% of Revenue	Trend
1994	11,635	0.27	100	13,658	0.31	100	47,000	1.08	65.0	100
1995	7,280	0.14	52	14,624	0.28	90	47,983	0.92	69.0	106
1996	7,763	0.15	56	16,196	0.31	100	76,685	1.48	76.2	117
1997	17,540	0.30	111	22,213	0.37	113	89,930	1.52	70.0	108
1998	20,874	0.26	96	33,005	0.40	129	110,077	1.35	67.1	103

Operating Cash Netback = Oil & Gas Revenue – Royalty – Operating Cost

⁽¹⁾ Trend with base year 1994, with nominal value of 100

Revenue/Expenses/Cash Flow Netback/Net Earnings – Per Mcf

The table calculates revenue, expenses and net earnings converted into dollars per thousand cubic feet gas equivalents (1 Barrel equals 10 Mcf).

	1998	1997	1996	1995	1994
Annual Production (MMcf)	81,597	59,320	51,924	52,221	43,520
Revenue	\$ 2.03	\$ 2.20	\$ 1.94	\$ 1.34	\$ 1.66
Royalties net of A.R.T.C.	0.26	0.30	0.15	0.14	0.27
Operating costs	0.40	0.37	0.31	0.28	0.31
Cash netback	1.37	1.53	1.48	0.92	1.08
General and administrative	0.05	0.16	0.09	0.06	0.09
Interest on long-term debt	0.16	0.11	0.12	0.14	0.14
Lease rentals and other taxes	0.08	0.06	0.05	0.04	0.04
Cash flow netback	1.08	1.20	1.22	0.68	0.81
Depletion and depreciation	0.58	0.56	0.46	0.48	0.37
Gain on sale of properties	(0.04)	(0.21)	(0.07)	–	(0.24)
Dry hole costs	0.15	0.12	0.05	0.04	0.08
Geological and geophysical	0.06	0.03	0.06	0.06	0.09
Other (income) expense (net)	–	–	0.01	–	0.03
Pretax earnings	0.33	0.70	0.71	0.10	0.48
Deferred income taxes (recovery)	0.11	0.31	0.22	(0.01)	0.22
Net earnings	\$ 0.22	\$ 0.39	\$ 0.49	\$ 0.11	\$ 0.26
Net earnings trend ⁽¹⁾	85	150	188	42	100

⁽¹⁾ Trend with base year 1994, with nominal value of 100.

Balance Sheet Information				Net Appraised Asset Value Per Common Share			
(\$ millions) As at December 31	1998	1997	Change	(\$ millions except per share amount)			
Assets				Discount rate at December 31, 1998	10%	15%	20%
Current assets	\$ 60.0	\$ 62.7	(4%)	Present value of net oil			
Properties & equipment (net)	561.6	404.1	40%	and gas reserves ^(1,2)	\$ 709.4	\$ 577.2	\$ 487.3
Other	2.6	3.2	(19%)	Appraised value of undeveloped acreage	63.0	63.0	63.0
	\$ 624.2	\$ 470.0	33%	Subtotal	772.4	640.2	550.3
Liabilities				Less working capital	(2.3)	(2.3)	(2.3)
Current liabilities	\$ 62.4	\$ 60.5	3%	Operating long-term debt	(226.5)	(226.5)	(226.5)
Bank loans	226.5	139.5	62%	Net appraised asset value	\$ 543.6	\$ 411.4	\$ 321.5
Deferred revenue/other	8.8	9.1	(3%)	Net appraised asset value per common share⁽³⁾	\$ 9.54	\$ 7.22	\$ 5.64
Deferred taxes	63.6	57.1	18%				
Shareholders' equity	262.9	203.8	29%				
	\$ 624.2	\$ 470.0	33%				

⁽¹⁾Includes benefit of ARTC with no allowance for income tax

⁽²⁾Based upon Escalating Price Assumptions

⁽³⁾Based upon outstanding common shares 56,953,600 at Dec. 31, 1998

Capital Structure

The following table outlines Paramount's capital structure since 1994.

	1998	1997	1996	1995	1994
(\$ thousands)	\$	\$	\$	\$	\$
Long-term debt (operating)	226,439	139,518	63,046	86,111	84,563
Deferred income tax	63,620	57,098	43,799	30,941	32,984
Deferred revenue and other	8,841	9,039	9,552	8,501	1,109
Shareholders' equity	262,932	203,766	120,734	88,427	84,395
	561,832	409,421	237,131	213,890	203,051

Net Debt

At December 31, 1998 (\$ thousands)

Current assets	\$ 60,017
Less current liabilities	62,363
Working capital deficiency	2,346
Long-term operating bank loans	226,439
Net debt	\$ 228,785

Estimated Future Pre-Tax Cash Flow

Reserves Before Royalty		Present Value of Estimated Pre-Tax Cash Flow Discounted at:			
	Gas (Bcf)	Oil/Liquids (MBbl)	10%	15%	20%
Proven	607	7,895	565.7	470.9	404.6
Probable	181	3,735	143.7	106.3	82.7
Total	788	11,630	709.4	577.2	487.3

The discounted net present values of the estimated pre-tax cash flow expected during the economic life of all reserves are based on estimates using escalating price assumptions at rates of 10%, 15% and 20% per annum compounded annually. They are calculated prior to the consideration of income taxes but include ARTC, and are not to be construed as representing the fair market value of properties. The fair market value of the properties and such net present values will depend upon the subjective considerations of a particular purchaser.

Key Ratios

The accompanying section to the Cash Flow Reconciliation utilizes the following key ratios to "fundamental analysis".

- Cash Flow per Share
- Share Price to Cash Flow Multiple
- Debt to Cash Flow Ratio
- Debt to Equity Ratio
- Earnings per Share
- Dividend Payout
- Rate of Return on Shareholders' Equity

Per share amounts for 1998 utilize the weighted average number of common shares outstanding of 54,348,000.

Cash Flow

Paramount calculates its cash flow;

- net of all lease rentals of both producing and non-producing properties
- net of all general and administrative costs (the Company does not capitalize any G&A)
- net of all marketing costs which are expensed currently

The Company does not capitalize any interest expense.

Net Earnings

Paramount calculates its net earnings;

- net of dry hole costs
- net of geological and geophysical costs
- net of all lease rentals paid
- net of all G&A expenses
- net of all interest costs

Cash Flow Reconciliation					
	December 31				
(\$ millions)	1998	1997	1996	1995	1994
Net revenue ⁽¹⁾	144.6	112.9	93.2	63.2	61.2
Less					
Operating costs	33.0	22.2	16.2	14.6	13.7
G&A	4.5	9.4	5.0	3.6	4.3
Lease rentals	4.2	2.5	1.9	1.9	1.9
Interest expense	12.7	6.7	6.4	7.2	5.9
Current and Large Corporation Taxes	2.1	1.2	0.6	0.4	0.2
Cash flow	88.1	70.9	63.1	35.3	35.2
Cash flow as a % of revenue	61	63	68	56	58
⁽¹⁾ Revenue net of royalty and ARTC					

Cash Flow Per Year and Cash Flow/Share Per Year					
Fiscal Year	Cash Flow (\$ 000s)	Trend ⁽¹⁾	Year End Shares (000s)	Cash Flow per Share (\$)	Trend ⁽¹⁾
1994	35,213	100	47,703	0.74	100
1995	35,313	100	47,703	0.74	100
1996	63,107	179	49,203	1.32	178
1997	70,911	201	53,954	1.42	192
1998	88,157	250	56,954	1.62	219
⁽¹⁾ Trend with base year 1994, with a nominal value of 100					

Share Price to Cash Flow Multiple					
	Share Price as a Multiple of Cash Flow				
Fiscal Year	Share Price (\$)	Cash Flow (\$ 000s)	Cash Flow per Share (\$)	Low Price	High Price
1994	4.17	7.83	35,213	0.74	5.6x 10.5x
1995	3.83	5.33	35,313	0.74	5.2x 7.2x
1996	4.33	9.00	63,107	1.32	3.3x 6.8x
1997	7.75	17.75	70,911	1.42	5.5x 12.5x
1998	11.00	17.00	88,157	1.62	6.8x 10.5x

Net Debt to Cash Flow Ratio					
Fiscal Year	Operating Debt (\$ 000s)	Cash Flow (\$ 000s)	Debt/Cash Flow Ratio	Trend ⁽¹⁾	
1994	79,913	35,213	2.3:1	100	
1995	86,510	35,313	2.5:1	109	
1996	79,996	63,107	1.3:1	57	
1997	137,387	70,911	1.9:1	83	
1998	228,785	88,157	2.6:1	113	
⁽¹⁾ Trend with base year 1994, with a nominal value of 100					

Debt to Equity Ratio					
Fiscal Year	Operating Debt (\$ 000s)	Shareholders' Equity (\$ 000s)	Debt/Equity Ratio	Trend ⁽¹⁾	
1994	84,563	84,395	1.00:1	100	
1995	86,111	88,427	0.97:1	97	
1996	63,046	120,734	0.52:1	52	
1997	139,518	203,766	0.68:1	68	
1998	226,439	262,932	0.86:1	86	
⁽¹⁾ Trend with base year 1994, with a nominal value of 100					

Earnings Per Share					
Paramount's earnings are net of dry hole costs, geological/geophysical costs and all lease rentals.					
Fiscal Year	Earnings (\$ 000s)	Trend ¹	Year End Shares (000s)	Earnings per Share (\$)	Trend ⁽¹⁾
1994	11,504	100	47,703	0.24	100
1995	5,622	49	47,703	0.12	50
1996	25,462	221	49,203	0.53	221
1997	23,389	203	53,954	0.47	196
1998	18,210	158	56,954	0.34	142
⁽¹⁾ Trend with base year 1994, with a nominal value of 100					

Dividend Payout			
Paramount is one of the few oil and gas companies its size which declares a dividend. With the exception of 1987, a dividend has been paid every year since 1985.			
Fiscal Year	Dividend per Share (\$)	Net Earnings Per Share (\$)	Payout %
1994	0.033	0.24	13.8
1995	0.033	0.12	27.5
1996	0.033	0.53	6.2
1997	0.050	0.47	10.6
1998	0.050	0.34	14.7

Rate of Return on Shareholders' Equity					
Paramount has earned a weighted average after-tax rate of return of 16.8% as computed on a book basis, based upon the weighted average shareholders' equity invested over the past five years.					
(\$ thousands)	1998	1997	1996	1995	1994
Net earnings	18,210	23,389	25,462	5,622	11,504
Weighted average shareholders' equity	233,300	162,250	104,600	86,400	79,000
After-tax rate of return (%)	7.8	14.4	24.3	6.5	14.6

Company Forecast 1999

Production/Pricing

Gas	270 MMcf/d @ \$2.25
Oil/Liquids	3,000 Bbl/d @ \$19.40
Cash flow (\$MM)	\$145
Cash flow per share	\$ 2.55
Capital budget (\$MM)	\$ 145

Common Share Data

Shares of Paramount Resources Ltd. trade on The Toronto Stock Exchange under the symbol 'POU'. On January 12, 1998 Paramount was added to the TSE 300 Composite Index (Subgroup 3.2 Oil and Gas Producers) and the TSE 200 Index, effective January 16, 1998.

December 31	1998	1997 ⁽²⁾
Outstanding shares (000s)	56,954	53,954
Public float ⁽¹⁾ - shares (000s)	25,893	25,340
- % of total share	46%	47%
Trading volume (000s)	9,900	5,500
Trading volume as % of public float	38%	22%
Trading value (\$ 000s)	\$ 142,266	\$ 70,180
Trading range		
High	\$ 17.00	\$ 17.75
Low	\$ 11.00	\$ 7.75
Close	\$ 15.00	\$ 17.00
Weighted average trading price	\$ 14.37	\$ 12.66
Market capitalization at year end (\$ millions)	\$ 854.3	\$ 917.2

⁽¹⁾ Public Float is all outstanding shares less shares owned/controlled by officers/directors

⁽²⁾ Restated for 3:1 Stock split effective June 4, 1997

Directors and Officers

C.H. (Clay) Riddell

Director, Chairman & President

D.J. (David) Broshko

Chief Financial Officer

J.H.T. (Jim) Riddell

Corporate Operating Officer

S.L. (Sue) Riddell Rose

Corporate Operating Officer

C.E. (Chuck) Morin

Corporate Secretary

L.A. (Laurel) Friesen

Assistant Corporate Secretary

J.F. (Jim) Jungé

Director

D.M. (David) Knott

Director

W.B. (Wally) MacInnes

Director

G. B. (Barry) Padley

Director

V.S.A. (Vi) Riddell

Director

J.B. (John) Roy

Director

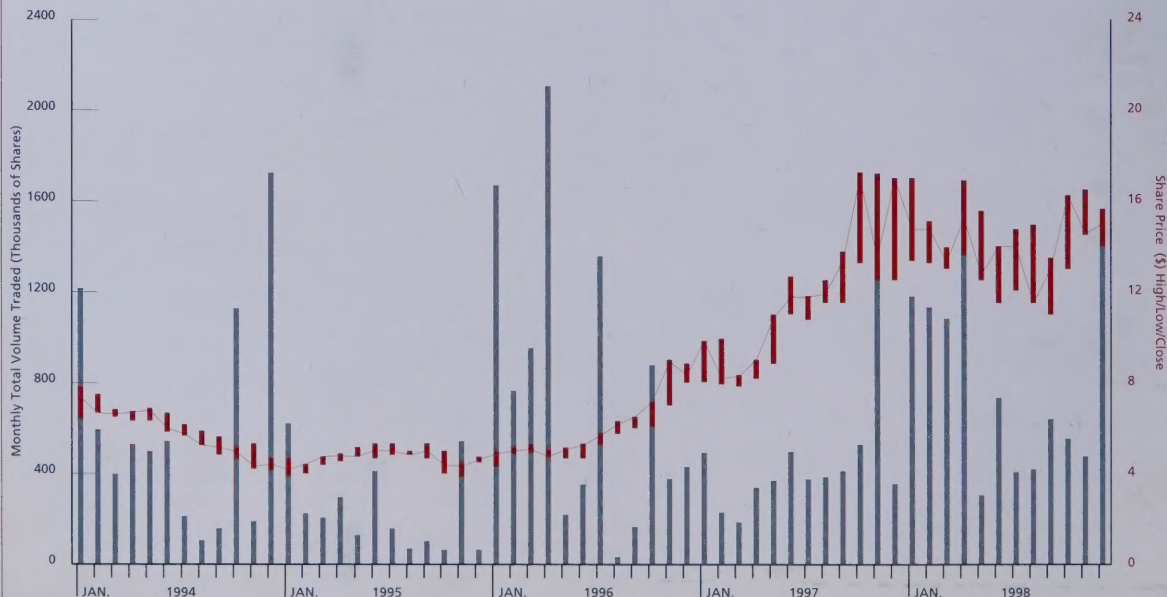
A.S. (Alistair) Thomson

Director

B.M. (Bernie) Wylie

Director

Five Year Share Price and Trading Volumes (1994 - 1998)



Officers

C.H. RIDDELL
President

D.J. BROSHKO
Chief Financial Officer

S.L. RIDDELL ROSE
Corporate Operating Officer

J.H.T. RIDDELL
Corporate Operating Officer

C.E. MORIN
Corporate Secretary

L.A. FRIESE
Assistant Corporate Secretary

Directors

C.H. RIDDELL⁽³⁾
Chairman of the Board
President
Paramount Resources Ltd.

J.F. JUNGÉ
Chairman of the Board
The Pitcairn Properties Inc.
Jenkintown, Pennsylvania

D.M. KNOTT
General Partner
Knott Partners, L.P.
Syosset, New York

W.B. MACINNES, Q.C.^{(1) (2)}
Barrister & Solicitor
Counsel, Ballem MacInnes
Calgary, Alberta

G.B. PADLEY⁽¹⁾
Business Executive
Calgary, Alberta

V.S.A. RIDDELL
Business Executive
Calgary, Alberta

J.B. ROY^{(1) (2) (3)}
Senior Consultant
Jennings Capital Inc.
Calgary, Alberta

A.S. THOMSON
President
Touche, Thomson & Yeoman
Investment Consultants Ltd.
Calgary, Alberta

B.M. WYLIE^{(2) (5)}
Business Executive
Calgary, Alberta

(1) Member of Audit Committee (2) Member of Environmental Committee (3) Member of Compensation Committee

paramount

Head Office

4000 First Canadian Centre
350 Seventh Avenue S. W.
Calgary, Alberta
Canada T2P 3W5
Telephone: (403) 290-3600
Facsimile: (403) 262-7994

Consulting Engineers

Gilbert Laustsen Jung Associates Ltd.
Calgary, Alberta

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

Auditors

Ernst & Young LLP
Calgary, Alberta

Bankers

Bank of Montreal
Main Branch
Calgary, Alberta

Royal Bank of Canada
Main Branch
Calgary, Alberta

Canadian Imperial Bank of Commerce
Main Branch
Calgary, Alberta

Solicitors

Ballem MacInnes
Calgary, Alberta

Registrar and Transfer Agent

Montreal Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

Stock Exchange Listing

The Toronto Stock Exchange
(‘POU’)

Annual Meeting

Shareholders are cordially invited to attend the Annual Meeting to be held May 20, 1999, at 3:00 p.m. in the McMurray Room at the Calgary Petroleum Club, 319 Fifth Avenue S. W. Calgary, Alberta



Paramount Resources Ltd.

4000 First Canadian Centre

350 Seventh Avenue S. W.

Calgary, Alberta

Canada T2P 3W5

Telephone: (403) 290-3600

Facsimile: (403) 262-7994